ATLAS

COLD STORAGE INCOME TRUST

2002 ANNUAL REPORT

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Year 2002 highlights

It was another great year!

Growth

- Major acquisitions [illegible]
  - certain assets [illegible] Logistics Inc.
  - [illegible] Warehousing Services
  - [illegible] of CS Integrated LLC
- Opened [illegible] Calgary and Chicago area
- Total network capacity [illegible] cubic feet, an increase of [illegible]%
- Entered dedicated [illegible]
- Expanded transportation [illegible] services
- 4,500 employees
- Customer base over 7,[illegible]

Financing

- Past two years raised [illegible] in [illegible] successive equity issues
- More flexibility through new [illegible] credit facility
- Equity increased [illegible]% to $[illegible] million

Operating Results

- Revenue increased [illegible]% to $[illegible] million
- Net earnings [illegible] to $[illegible] million
- Earnings from [illegible] increased [illegible]% to $60 million
- Asset base grew by [illegible]% to $[illegible] million
- Enterprise value [illegible] million

Growth in Unit Value

- Trust Units provided [illegible] total return since August 2000
  - Unit price as of December 2002 increased to $11.2[illegible] from $[illegible] in August 2000
  - Distribution of $[illegible] paid to unitholders during 2002 compared to $[illegible] in 2001, increase of [illegible]%

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Year 2002 highlights
It was another great year!

Growth

- Major acquisitions - certain assets of TCT Logistics Inc.
  - assets of Coolstor Warehousing Services
  - majority assets of CS Integrated LLC
- Opened expansions in Montreal, Toronto, Calgary and Chicago area
- Total network capacity grew to 54 facilities, 270 million cubic feet, an increase of 118%
- Entered dedicated contract retail logistics business
- Expanded transportation and distribution services
- 4,500 employees
- Customer base over 7,000

Financing

- Past two years raised $356 million in 5 successive equity issues
- More flexibility through new $306.5 million credit facility
- Equity increased 53% to $490 million

Operating Results

- Revenue increased 72% to $296 million
- Net earnings increased 68% to $19 million
- Earnings from operation increased 23% to $60 million
- Asset base grew by 75% to $834 million
- Enterprise value of more than $900 million

Growth in Unit Value

- Trust Units provided 86% total return since August 2000
  - Unit price as of December 2002 increased to $11.25 from $7.30 in August 2000
  - Distribution of $0.94 paid to unitholders during 2002 compared to $0.90 in 2001, increase of 4.4%

Company Profile

Atlas Cold Storage Income Trust through its operating arm, Atlas Cold Storage, is an integral part of the supply chain for the frozen and chilled food industry. Through a network of fifty-four (54) facilities and 4,500 team members, Atlas Cold Storage provides temperature-controlled storage and logistics services to processors, distributors, food service providers and retailers across North America.

Atlas Cold Storage currently operates the second largest temperature-controlled distribution network in North America. The company is driven by the continued growth in frozen and chilled food consumption and by the increased outsourcing of supply chain services. Its plan for strong, continued growth includes increasing capacity in major census zones, expanding its third-party retail logistics business, and acquiring operations in key markets that complement its existing network.

Atlas Cold Storage Income Trust provides unitholders with quarterly distributions that reflect the underlying strengths of the company. Trust units and convertible debentures are listed on The Toronto Stock Exchange [under FZR.UN and FZR.DB respectively] and are eligible for registered retirement savings plans [RRSPs], registered retirement income funds [RRIFs] and deferred profit sharing plans [DPSPs].

Atlas Cold Storage Income Trust Annual Report

Chairman's Letter to Unitholders and Debentureholders

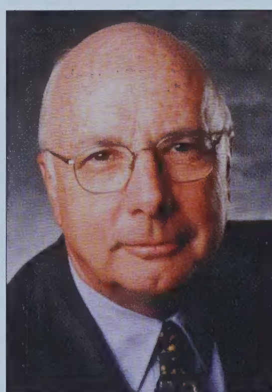
The Trust saw another active year in 2002, as it moved forward in implementing its vision of establishing Atlas as a major North American integrated supply chain company. In October 2002 the Trust completed two major acquisitions in the United States. As a result, Atlas now operates the second largest temperature-controlled frozen food distribution network in North America, with 54 facilities comprising 270 million cubic feet of space and 4,500 employees. More than 70 percent of its network capacity is now located in the United States.

The Trust continued to be prudently capitalized in 2002, and continues to maintain a strong balance sheet to ensure the continued support of the capital markets. During 2002, the Trust raised $198 million of new equity capital through two issues, in order to fund the major growth of its network of refrigerated warehouses and of its distribution services. At the same time, the Trust increased its credit facilities to $306.5 million, and at year end had more than $79 million available for future growth opportunities.

This past year was a significant milestone for the Trust. Atlas has emerged as a North American industry leader. We have a strong financial base and the technological and human resources to move forward with our vision, and to accomplish our objective of enhancing unitholder values.

The Trust has an exceptional management team and a strong and dedicated Board, and I would like to thank all of them for their significant efforts in the last year.

On behalf of my fellow trustees, Al Bellstedt and Robert Martin, I welcome new unitholders from our recent equity issues. With you, we look forward to the continued success of the Trust.



J. Nicholas Ross
Chairman and Trustee

President and CEO's Message to Unitholders and Debentureholders

I am pleased to report that over the past year Atlas Cold Storage ("Atlas") has achieved tremendous growth and assembled the necessary elements to transform our organization into a major North American integrated supply chain service provider. By carefully implementing our plan of strategic acquisitions, and by leveraging our established warehousing and transportation networks and vertical integration of the supply chain, we have significantly increased the scale of our operations. Our revenues for 2003 will be approximately $700 million and we have an enterprise value of more than $900 million. Moving forward in 2003, we will continue to focus on building an integrated supply chain across North America, on achieving efficiencies through streamlining and consolidation, and on leveraging our new market share to generate strong net earnings and distributions to our unitholders.

Building a Sustainable Platform for Growth

Today Atlas operates Canada's largest integrated temperature-controlled network and North America's second largest. Through our network of 54 facilities, which includes more than 270 million cubic feet of warehousing space and 4,500 team members, we provide temperature-controlled storage and logistics services to processors, distributors, food service providers and retailers across North America. Atlas is truly a North American enterprise: approximately 75 percent of our operating earnings are currently derived in the United States. Through the Atlas network, our 7,000 customers can access regional and national distribution channels quickly and efficiently.

Atlas operates three interrelated business segments that provide supply chain services to the frozen and chilled foods industry.

We have assembled the necessary elements to transform Atlas into a major North American integrated supply chain service provider

1. Public Refrigerated Warehousing:

- Our core business, and the foundation of the Atlas network, is the operation of the 50 public refrigerated warehousing distribution centers we now have across Canada and the United States.

2. Transportation Services:

- Asset-Based Services
  - From our Canadian base, we provide transportation services to all points in North America for many of Canada's largest food processors.
- Non-Asset Based Services
  - We also provide non-asset based freight management services from four key distribution hubs in the United States.

3. Dedicated Contract Logistics:

- Our services are complemented by the operation and management of four high-volume grocery retail distribution centers with more than 2,100 employees.

Atlas is leveraging its core operations and management processes into these business segments, and is supporting all three segments with corporate services and management information systems. Over the coming year, we will continue to invest in the development of business intelligence systems to increase the integration and growth of our supply chain network.

Financial Highlights

Over the past two years Atlas has raised more than $355 million in five successive equity issues.

Putting Trust Equity

Capital to Work

From its solid financial and operating base Atlas can confidently pursue and invest in growth opportunities. We continue to access the trust equity capital markets to fund the growth of our supply chain network, while working to ensure that our actions produce immediate, as well as long-term, financial results for our unitholders.

During 2002 we raised more than $198 million in trust equity. We used this equity to purchase 16 temperature-controlled distribution centers in the United States, to acquire the dedicated contract logistics operations, to acquire the non-asset and asset-based transportation operations, and to expand our network. Each acquisition was made at an attractive price and we are already seeing the financial benefits.

Over the past two years Atlas has raised more than $356 million in five successive equity issues. Each successive issue has been at a higher unit price than the previous issue.

Prudent

Debt Use

We continue to prudently capitalize Atlas to maintain conservative debt leverage levels. This action has garnered the support of the bank market, where we placed a $306.5 million bank credit facility among seven financial institutions. We have approximately $79 million still available under this facility, which can be extended into 2005.

The increased scale of our operations provides Atlas with many potential sources of debt capital. Over the coming year, Atlas will seek to replace a portion of its bank facility with a permanent source of mid to long-term debt capital. Since the long-term interest rate environment remains favorable for this action, we hope to complete this by the end of the second quarter.

Growing the

Enterprise Value

Entering 2003, we have grown the enterprise value of Atlas to more than $900 million. This is an increase of more than 225 percent from August 2000 values. Over the same timeframe our market capitalization has increased 350 percent, to approximately $700 million. Since August 2000, the Trust unitholders have received a return of 86 percent and our unit price rose to $11.25 (from $7.30) on December 31, 2002, while we continue to deliver a stable distribution.

Providing Key Infrastructure Services to the Frozen and Chilled Foods Industry

The Frozen and Chilled Food Industry Continues to Grow

Across North America, consumption of frozen and chilled foods continues to grow, driven by rising consumer demand for fast, convenient foods that require little preparation time. Branded food processors have responded with cost-effective, value-added meal solutions, many of which are frozen or chilled food products. For producers, freezing remains one of the best and most cost-effective forms of preserving food and maintaining product integrity. With one of the largest temperature-controlled distribution networks in North America, Atlas is well positioned to provide services to this growing market.

Outsourcing of Distribution

Channels

We have grown the enterprise value of Atlas to more than $900 million ... an increase of more than 225 percent from our August 2000 value..

Joe Romagnolo *Corporate Controller* **Ronald N. Perryman** *Vice President, Finance* **Dominick Hardy** *Director, Corporate Finance*

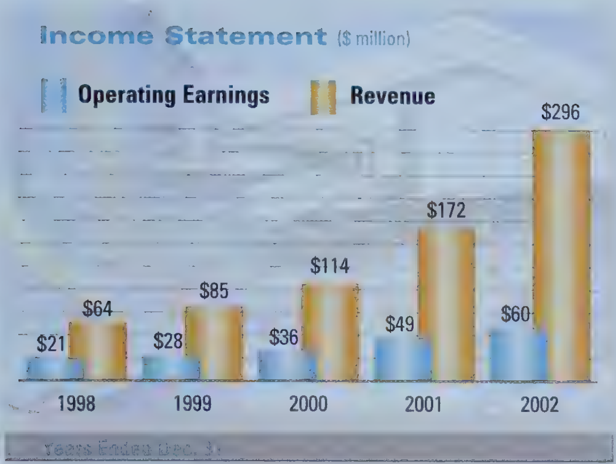
The wave of consolidation among food processors and brand marketers over the past few years has dramatically affected distribution channel strategies. With increased market share as a result of consolidation, food processors are turning to large-scale processing facilities to gain competitive cost advantages. Processors have been investing in brand development and processing efficiency, as well as the vertical integration of raw inputs to the finished products.

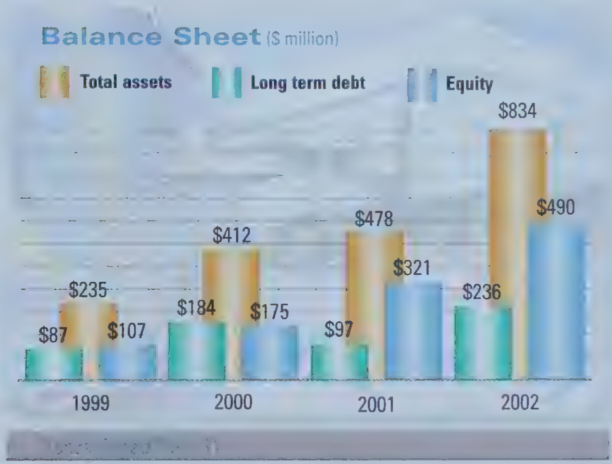
Another industry trend is the consolidation of product categories within major multinational food companies. Major food processors are concentrating on brand development across product categories. To achieve efficiencies, they are seeking to coordinate distribution strategies across product groupings. Traditionally, a public refrigerated warehouse would provide both capital and management systems e.g., the building and labor services. As product volumes under single corporate groups increase, processors have been decoupling capital from value-added services. Atlas is well positioned to respond to this industry trend with a conservative balance sheet and access to capital, and some of the most sophisticated information and management systems in the industry. Atlas is already well entrenched as a leading provider of non-asset based solutions. Decoupling of services will affect smaller regional players who cannot make the required investment in systems and human resources.

While food production trends are changing, the industry still faces its traditional transportation challenge of bringing items to market from predominantly rural processing facilities to predominantly urban consumption locations. The Atlas network is well situated to address this by providing the right services in the right locations. We are committed to growing and building both our network infrastructure and service offering to ensure the success of our customers.

Regionalization still characterizes the production of raw inputs and finished products—for example, poultry in the southeast, fish in the Atlantic, beef and pork in the west. After processing, moving food products from production region to market depends on temperature-controlled transportation. This is where Atlas provides value to our customers. Atlas' distribution centers are located in the major census zones—where the markets are, and where food is consumed.

By outsourcing part or all of their distribution channel service to Atlas, our customers can concentrate their efforts on core business activities, brand development and processing efficiency. Our customers know that Atlas has the resources and the commitment to ensure supply chain success.





Atlas now operates the **second largest temperature-controlled warehouse network in** North America and is poised to increase its competitive position in the U.S. public refrigerated warehousing industry.

Building an Integrated Supply Chain

Across North America

Staying the Course: Executing the Strategy

We continue to stay the course with our strategy to expand our network and integrated services into all major census zones in North America. Moving forward, our challenge in identifying appropriate expansion opportunities is to continue balancing market position with asset quality. Atlas has one of the youngest portfolios of assets in the public refrigerated warehousing industry. Our modern, energy efficient buildings are more productive and cost significantly less to maintain. Customers seeking quality supply chain solutions will continue to choose Atlas as their service provider.

Our continent-wide strategy is based on building a regional presence in key areas to diversify our customer base, product mix and service offerings. Our strong regional base in public refrigerated warehousing provides significant opportunities to leverage our assets and resources. It also eases the integration of newly acquired facilities into the Atlas network and creates numerous synergy opportunities. We continue to enter regional markets selectively throughout North America as we focus on leveraging our information systems and distribution expertise.

Atlas has one of the most comprehensive suites of integrated supply chain programs in North America. Through our freight management programs, our customers can access our temperature-controlled warehousing network and move products from the key major markets throughout North America. Through the Atlas transportation fleet, processors can directly access major markets from their processing centers, and to complement and manage these systems, Atlas operates a dedicated contract logistics operation.

We continue to leverage our asset base, information systems and management processes to deliver industry-leading supply chain solutions to our customers and long-term sustainable value to our stakeholders.

Creating an Integrated Network:

Building on Strong Regional Presence

Filling in the Canadian Network: Expansion, Transportation Services and Distribution Services

Our strategy is to develop a major presence in key census zones by offering high-volume, value-added warehousing services from modern large-scale distribution centers. The acquisition, on July 31, 2001, of two large-scale, modern, highly efficient facilities in British Columbia (Vancouver) and Alberta (Calgary) completed our Canadian network (which now comprises more that 60 million cubic feet of temperature-controlled space) and provided Atlas with a leading market presence in all major Canadian markets.

Today Atlas is the leading service provider in all major Canadian centers and we continue to gain market share. Atlas has more than 35 percent of the national Canadian market capacity, including 33 percent in Vancouver, 40 percent in Calgary, 48 percent in Toronto, 55 percent in Montreal and 80 percent in Atlantic Canada. During the second and third quarters of 2002, we opened expansions to our Montreal, Toronto, and Calgary facilities.

Merle Lemmen
Senior Vice President

Dan Quinn
Senior Vice President

Atlas unitholders

have enjoyed an 86 percent return since August 2000.

Atlas Supply Chain Services

On March 20, 2002, we expanded our service offering by acquiring certain assets of TCT Logistics Inc. and incorporating them into a newly formed subsidiary, Atlas Supply Chain Services Limited. Atlas Supply Chain Services Limited provides refrigerated transportation services to Canada's largest food processors directly from their Canadian processing plants to major centers across Canada and the continental United States. Acquiring these assets is an excellent way to expand our service offering to many of Canada's largest food processors, with a limited investment. Installation of a new management team and information systems will assist this business unit in achieving operating efficiencies—and the expansion of lanes in key regional markets will improve growth and profitability. In the United States, we will continue to leverage our non-asset based operations to provide business opportunities for Atlas Supply Chain Services Limited.

Atlas Distribution Services

During the fall of 2002, we further expanded our service offering for one of our major Canadian customers by becoming a master distributor of ice cream and novelties in Quebec. Through a network of eight distributors and our transportation management systems, Atlas provides order selection and delivery to more than 4,000 stores. Once again, Atlas has been able to leverage—with limited investment—its information and transportation systems and strong regional market position into a comprehensive value-added service. Through Atlas Distribution Services Limited, we have developed a comprehensive supply chain channel to serve a large geographic market. The program's scale will enable other brand processors to grow their Quebec presence by using our distribution capability. This will allow us to increase our route density and to obtain additional warehousing storage for these products.

Second Largest Temperature-Controlled Network in North America

Strength in Regions

As a result of two key transactions in October 2002, Atlas now operates the second largest temperature-controlled warehouse network in North America. On October 1, 2002, Atlas purchased the assets of Coolstor Warehousing Services, and on October 22, 2002, Atlas acquired a majority of the assets of CS Integrated LLC ("CSI"). Prior to these acquisitions, our U.S. presence had been based predominantly in the Midwest (Minnesota and Wisconsin) and Southeast (Georgia and South Carolina), where we had achieved a solid market position but limited national exposure.

Our two acquisitions—totaling over $250 million—cemented our market leadership position in the U.S. Midwest while diversifying our customer base and service offering in this area where Atlas already has a leading presence. Through these transactions, Atlas also acquired facilities in Minneapolis and Southern Minnesota; Pennsylvania (5); Denver, CO; St. Louis, MO; Mobile, AL; Douglas and McDonough, GA; Tampa, FL; Chicago, IL; and Buffalo, NY. Through the CSI acquisition, Atlas gained entry into the key Chicago and Atlanta hubs, strengthening our Georgia and Illinois coverage, and also established a solid foothold in the northeastern and southern U.S. markets. As well, Atlas expanded its existing Belvidere, IL facility during the third quarter of 2002.

Buying Right: Integrating our Service Offering

Acquiring two of our largest public refrigerated warehousing competitors provided a unique opportunity to increase our competitive position in the United States. The acquisitions enabled Atlas to enter areas that complement our existing network and customer base, to boost the scale of our U.S. freight management operations and to make a substantial move into non-asset based dedicated contract logistics.

In addition, through these transactions Atlas acquired the rights to additional sophisticated proprietary management information and decision support systems. Combined with our streamlined processes and platform, this will cement our competitive position in the United States. Atlas now boasts one of the most advanced real-time distribution center systems in the industry, dynamically tied to our freight systems and enterprise-wide database. We continue to build our information systems base because we recognize that integration of knowledge-based solutions throughout all service areas is the key to our future success.

Building On Core Competencies

Dedicated Contract Logistics:

Asset-Based and Non-Asset Based Supply Chain Solutions

Dedicated contract logistics allows Atlas to leverage its team members, asset base and advance information systems and customer base. Our dedicated logistics business includes both asset - based and non-asset based services.

Atlas has traditionally developed, owned and operated dedicated distribution centers for major processors, under long-term agreements. Such agreements provide Atlas with a return on its investment over the asset's life, matched to the term of the agreement. Due to the lengthy completion cycle for these agreements, it can take up to two years to settle agreements, then construct, open and operate new facilities. Atlas relies on its operational and management prowess, information systems, and financial capabilities to compete successfully in this sector.

As part of our CSI acquisition, Atlas purchased the management contracts for four dedicated retail contract logistics operations in Atlanta, GA; Shelbyville, IN; Phoenix, AZ; and Roanoke, VA. This purchase represents a substantial move into the non-asset based logistics management sector, as these facilities are owned by our customer, and are comprised of more than 66 million cubic feet of space and 2,100 employees. As we continue to leverage our position, we expect this business segment will provide Atlas with considerable growth opportunities over the coming years.

Mary Tibando
ce President Sales & Marketing

Comprehensive Distribution Solutions:

Freight Management Programs

There is an industry trend to combine high-volume order assembly warehousing with freight consolidation programs. As freight costs are much more expensive than warehousing costs, customers seek providers who can offer them both cost-effective pooling and freight consolidation in key distribution hubs. Freight management is an integral part of the success of our major distribution centers. A majority of the customers in our key distribution hubs in Atlanta, GA; Chicago, IL; Green Bay, WI; and Hatfield, PA use our freight management programs. To ensure the profitability of each segment, we operate our freight programs as separate business units from the warehousing program. In 2003, we will link these programs by aligning processes and information systems.

Alicia Gouveia
[illegible]

Archie MacDonald
Vice President Operations, Logistics

Keith DeBlaere
General Manager, Logistics

We continue to leverage our asset base, information systems and management processes to deliver industry-leading supply chain solutions to our customers and long-term sustainable value to our stakeholders.

Building a Knowledge-Based Business

Integrating Business Units through Information

To support the growth of the Atlas enterprise, we have moved decisively to consolidate all corporate services in our Toronto head office, and in the process have closed two U.S. corporate offices in Green Bay, WI and Liberty Corner, NJ. We were able to achieve this consolidation by implementing an enterprise-wide financial support system in early 2002, after converting all Atlas facilities to a common platform in 2001. The increased scale of our operations has provided the opportunity to develop a strong centralized knowledge-based support center. We are building expertise in core areas to support our growth and are streamlining operations to drive returns.

Information System Development:

Decision Support Systems

The increased scale of our operations allows us to leverage investment in information systems throughout the Atlas network and into new business opportunities. We are linking our network and business segments through the deployment of sophisticated business intelligence systems. The foundation of these systems is a common database operating in tandem with industry-leading application systems. Using these systems, Atlas can integrate service offerings and provide customers with access to one of the largest integrated supply chains in North America. The information we harvest in our business intelligence systems will help us to tailor our marketing efforts across all our businesses to provide complete supply chain solutions.

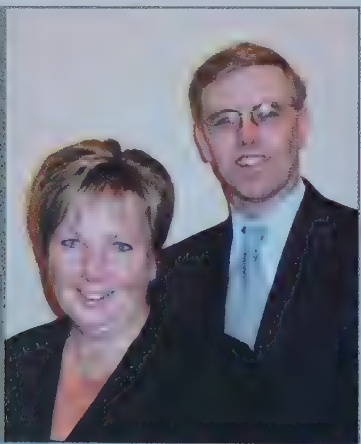
John Diduch
Director, Third Party Logistics
Paul Dennis
Vice President, Third Party Logistics

Paul Vickery
Director, Business Systems
Robert Lockie
Vice President,
Information Technology Operations

Operational Support

and Business Analysis

Our success is founded on providing our customers with knowledge, innovative solutions and added value. We are structuring the Atlas organization to support this knowledge base and to disseminate information among all our business units. Moving forward, key priorities include the development of comprehensive performance metrics for each business unit, and the development of business systems in tandem with decision and executive support systems.



Human

Resources

Our 4,500-strong North American workforce plays a key role in our success and we recognize the importance of investing in our human resources. We have bolstered our Toronto team with corporate services specialists in areas such as legal, insurance, benefits and payroll. The scale of our operations means we can focus our human resource efforts on honing and developing our knowledge-based team. We continue to support and promote education and mentoring programs for our employees.

Treasury

Services

With anticipated revenues of close to $700 million flowing through the Atlas organization from 54 facilities across North America, and with more than 75 percent of anticipated revenues and operating earnings generated in the United States, we have put in place a treasury services department to manage cash flows and hedging positions. These actions will result in significant savings through reduced interest costs and bank fees and tighter hedging programs.

Legal Services

and Risk Management

To manage our insurance portfolio and asset base, we have added internal expertise in legal services and risk management. Atlas has over $800 million in assets to safeguard, and more than 5 billion pounds of product flowing through our network each year.

Moving Forward

in 2003

Entering 2003, Atlas is a much stronger company. We have built a first-rate organization, held together by a strong, talented and committed team. Our large-scale geographic network and industry-leading information systems serve more than 7,000 customers across North America. We have the financial strength and capital to support strong, dynamic, and profitable growth. We will continue to make appropriate investments that create value for all our stakeholders.

At Atlas, we recognize that our team members drive our success. We would like to thank all members of the Atlas team in 2002, and welcome new team members. We have a solid infrastructure to build on, with the necessary financial and human capital to capture new growth opportunities. We are well positioned to continue our plan to transform Atlas into a pre-eminent integrated supply chain company.

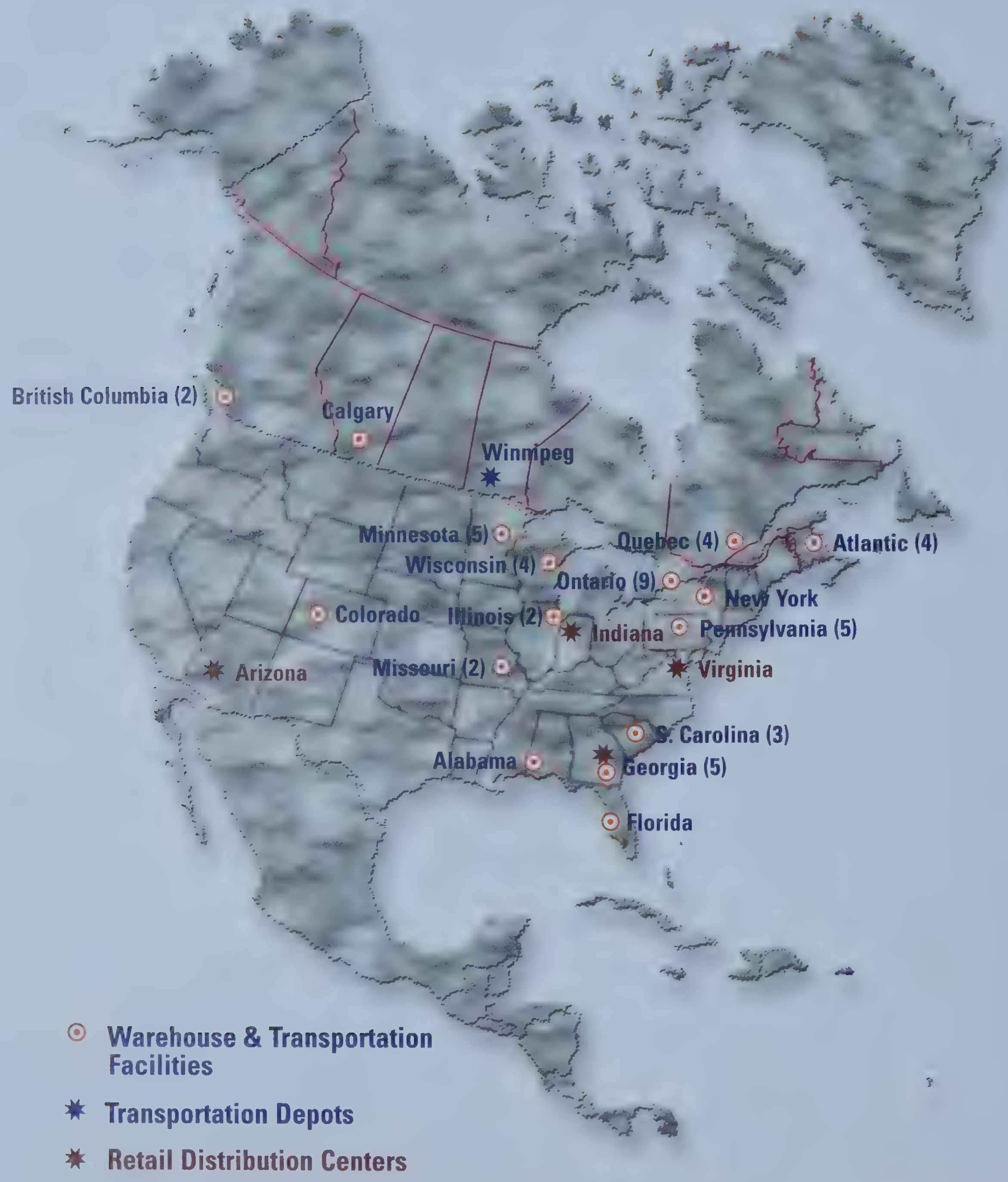
We would also like to thank our customers for their support and continued faith in Atlas. We appreciate the continued patronage and support of our unitholders and debentureholders who have made the capital available to grow our network.

We invite you all to share in our excitement about 2003 . . . and the benefits we expect to achieve from our hard work, commitment to achieving results, and continued confidence.

Patrick A. Gouveia
President and Chief Executive Officer

Andrew W. Peters
Executive Vice President and Chief Financial Officer

Atlas Cold Storage has a network of fifty-four (54) facilities across North America.



MANAGEMENT'S REPORT

The consolidated financial statements of **Atlas Cold Storage Income Trust** have been prepared by the Administrator, Atlas Cold Storage Holdings Inc., and approved by its Board of Directors and by the Trustees of the Trust. The Administrator is responsible for the preparation and the presentation of the information contained in these consolidated financial statements in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect estimates based upon the judgment of the Administrator. Where alternative accounting methods exist, the Administrator has selected those that it considered to be the most appropriate in the circumstances. Financial statements include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis designed to ensure the consolidated financial statements are presented fairly, in all material respects. Financial information presented elsewhere in this Annual Report has been prepared by management on a basis consistent with the consolidated financial statements.

The Trust maintains appropriate systems of internal control, policies and procedures which provide management with reasonable assurance that assets are safeguarded and the financial records are reliable and form a proper basis for preparation of financial statements. Such systems are designed to provide reasonable assurance that the financial information is accurate, relevant and reliable and that the Trust's assets are appropriately accounted for and adequately safeguarded.

The Trust's independent auditors, Ernst & Young LLP, have been appointed by the unitholders to express a professional opinion on the fairness of the consolidated financial statements. The independent auditors have full and unrestricted access to the Audit Committee. Their report is included below.

The Board of Directors and the Trustees ensure that the Administrator fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee is appointed by the Board of Directors and is completely comprised of outside directors. The Committee meets periodically with management, as well as with the independent auditors, to satisfy itself that each is properly discharging its responsibilities, to review the consolidated financial statements and the independent auditors' report and to discuss significant financial reporting issues and auditing matters. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for the issuance to the unitholders.

Patrick A. Gouveia
Chief Executive Officer

Andrew W. Peters
Chief Financial Officer

AUDITORS' REPORT

To the Unitholders of **Atlas Cold Storage Income Trust**

We have audited the consolidated balance sheets of **Atlas Cold Storage Income Trust** as at December 31, 2002 and 2001 and the consolidated statements of earnings and cumulative earnings and cash flows for the years then ended. These financial statements are the responsibility of the Administrator of the Trust. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Administrator, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
February 19, 2003.

Chartered Accountants
Ernst & Young LLP

CONSOLIDATED BALANCE SHEETS

[stated in thousands of dollars]

As at December 31

	2002 $	2001 $
ASSETS		
Current		
Cash and cash equivalents	18,082	1,935
Accounts receivable	53,675	22,305
Inventories	1,378	—
Prepaid expenses	4,758	3,592
Total current assets	77,893	27,832
Capital assets, net *[note 6]*	659,367	364,609
Future income taxes *[note 16]*	1,694	2,220
Deferred financing costs, net *[note 7]*	2,831	4,553
Intangible assets, net *[note 8]*	9,548	—
Goodwill, net *[note 9]*	83,064	78,314
	834,397	477,528
LIABILITIES		
Current		
Operating bank indebtedness	3,267	3,706
Accounts payable and accrued liabilities	58,442	19,585
Income taxes payable	169	290
Deferred revenue	6,862	3,761
Distributions payable *[note 13[f]]*	15,219	8,404
Current portion of long-term debt *[note 10]*	3,047	608
Current portion of convertible debentures *[note 11]*	2,232	3,093
Total current liabilities	89,238	39,447
Long-term debt *[note 10]*	236,335	97,400
Convertible debentures *[note 11]*	1,214	5,350
Future income taxes *[note 16]*	17,403	13,954
Total liabilities	344,190	156,151
Commitments and contingencies *[notes 18 and 19]*		

TRUST EQUITY *[note 13]*

	Number of Outstanding Units and Equivalents 2002	2001	2002 $	2001 $
Capital contributed by				
Unitholders	55,369,147	35,896,511	520,291	314,839
Shareholders of subsidiary	5,507,809	5,587,876	42,167	42,900
Total capital contributed	60,876,956	41,484,387	562,458	357,739
Distributions to be reinvested *[note 13[d]]*			—	246
Equity component of convertible debentures *[note 11]*			16,787	22,960
Cumulative convertible debentures equity accretion *[note 11]*			(10,987)	(8,695)
Cumulative foreign currency translation account *[note 13[g]]*			909	3,047
Cumulative earnings			34,504	15,459
Cumulative distributions *[note 2[b]]*			(113,464)	(69,379)
Total Trust equity			490,207	321,377
			834,397	477,528

See accompanying notes

On behalf of the Trustees:

J. Nicholas Ross
Trustee

Albrecht W.A. Bellstedt
Trustee

CONSOLIDATED STATEMENTS OF EARNINGS AND CUMULATIVE EARNINGS

[stated in thousands of dollars]

Years ended December 31

		2002 $	2001 $
Revenue		295,733	172,122
Operating and administrative expenses		228,447	117,796
Earnings before property lease rental, interest, amortization,write-downs and income taxes		67,286	54,326
Other expenses			
Property lease rental *[note 15[a]]*		7,273	5,601
Interest on long term debt *[note 10]*		7,732	11,384
Interest on convertible debentures *[note 11]*		614	1,425
		15,619	18,410
Earnings before amortization, write-downs and income taxes		51,667	35,916
Amortization of			
Capital assets		22,069	13,884
Deferred financing costs		3,216	4,954
Intangible assets *[note 8]*		586	—
Goodwill *[note 4[a]]*		—	4,108
Write-down of			
Goodwill *[note 4[a]]*		306	—
Deferred financing costs		1,475	—
Earnings before income taxes		24,015	12,970
Provision for income taxes *[note 16]*			
Current		851	323
Future		4,119	1,291
		4,970	1,614
Net earnings for the year		19,045	11,356
Cumulative earnings, beginning of year		15,459	4,103
Cumulative earnings, end of year		34,504	15,459
Earnings per unit before amortization and write-down of goodwill *[note 4[a]]*		$0.41	$0.50
Earnings per unit	- Basic	$0.40	$0.36
	- Fully diluted	$0.39	$0.36
Weighted average number of units	- Basic	47,146,381	31,134,014
	- Fully diluted	50,705,662	35,546,231

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

[stated in thousands of dollars]

Years ended December 31	2002 $	2001 $
OPERATING ACTIVITIES		
Net earnings for the year	19,045	11,356
Add		
Amortization of		
Capital assets	22,069	13,884
Deferred financing costs	3,216	4,954
Intangible assets	586	—
Goodwill	—	4,108
Write-down of		
Goodwill	306	—
Deferred financing costs	1,475	—
Future income taxes	4,119	1,291
	50,816	35,593
Net change in non-cash operating working capital balances *[note 17]*	14,186	(5,767)
Cash provided by operating activities	65,002	29,826
INVESTING ACTIVITIES		
Expansions of warehouses and distribution centers	(37,561)	(7,359)
Acquisition of other capital assets	(27,204)	(18,892)
Purchase of transportation equipment	(989)	—
Business acquisitions *[note 5]*	(259,605)	(33,390)
Cash used in investing activities	(325,359)	(59,641)
FINANCING ACTIVITIES		
Repayment of liability component of convertible debentures	(2,286)	(3,565)
Proceeds from long-term debt	321,505	206,447
Repayment of long-term debt	(192,471)	(299,196)
Deferred financing costs	(2,969)	(4,357)
Issuance of Trust units for cash *[note 13[b]]*	192,471	154,708
Cash distributions paid	(38,783)	(24,990)
Cash provided by financing activities	277,467	29,047
Effect of exchange rate changes on cash	(963)	586
Net increase (decrease) in cash and cash equivalents during the year	16,147	(182)
Cash and cash equivalents, beginning of year	1,935	2,117
Cash and cash equivalents, end of year	18,082	1,935
Supplemental cash flow information		
Interest paid	11,738	17,267
Income taxes paid	1,800	2,728

See accompanying notes

[stated in thousands of dollars, except per unit amounts]

1. STATUS AND OPERATIONS OF THE TRUST

Atlas Cold Storage Income Trust [the "Trust"] is an open-ended, limited purpose trust established under the laws of the Province of Ontario by a Declaration of Trust dated February 25, 1997, as amended and restated as of May 14, 1997, May 12, 1999 and August 9, 2000. The Trust had nominal assets until the acquisition of its initial subsidiary on May 27, 1997.

The Trust, through its wholly-owned subsidiary, Atlas Cold Storage Holdings Inc. ["Atlas Holdings", or, in its capacity as Administrator of the Trust, the "Administrator"] and the subsidiaries of Atlas Holdings, operates a Canadian and a United States based network of public refrigerated warehouse ["PRW"] facilities providing temperature-controlled storage, handling, distribution, transportation, logistics management services and retail logistics. All of the Trust's subsidiaries operate under the business name of Atlas Cold Storage or Atlas Cold Logistics.

2. DISTRIBUTABLE CASH

The Trust distributes all of its estimated distributable cash each year, net of any reserve deemed prudent by the Board of Directors of Atlas Holdings. Distributable cash is not a defined term under Canadian generally accepted accounting principles but is currently determined by the Trustees as net earnings for the year of the Trust, adjusted for non-cash items including amortization, write-downs and future income taxes, and further adjusted by amounts retained by the Trust to fund interest on the convertible debentures and sustaining capital expenditures. The amount for sustaining capital expenditures is determined by the Board of Directors of Atlas Holdings and was established for 2002 as $5,500 [2001 - $4,750].

[a] Distributable cash for the year is as follows:

	2002 $	2001 $
Net earnings for the year	19,045	11,356
Add		
Amortization of		
Capital assets	22,069	13,884
Deferred financing costs	3,216	4,954
Intangible assets	586	—
Goodwill	—	4,108
Write-down of		
Goodwill	306	—
Deferred financing costs	1,475	—
	27,652	22,946
Interest on convertible debentures expensed	614	1,425
Future income taxes	4,119	1,291
Amounts retained by the Trust for		
Interest paid and payable on convertible debentures	(2,840)	(4,720)
Sustaining capital expenditures	(5,500)	(4,750)
Amount allocated on issue of Trust units to equalize distributions *[note 13[c]]*	2,270	2,254
Total distributable cash generated for the year	45,360	29,802
Actual distributions for the year	46,355	29,592
Total distributable cash generated per unit for the year	$0.92	$0.90
Actual distributions per unit	$0.94	$0.90

[b] Cumulative distributions comprise distributions less amounts allocated on issue of Trust units to equalize distributions and are as follows:

	2002 $	2001 $
Cumulative distributions, beginning of year	69,379	42,041
Amount allocated on issue of Trust units to equalize distributions *[note 13[c]]*	(2,270)	(2,254)
Actual distributions for the year	46,355	29,592
Cumulative distributions, end of year	113,464	69,379

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Trust have been prepared by the Administrator in accordance with Canadian generally accepted accounting principles and within the framework of the significant accounting policies summarized below:

Basis of consolidation

These consolidated financial statements include the accounts of the Trust and its directly and indirectly owned subsidiary companies, all of which are wholly owned. Results of operations of acquired subsidiaries are included from respective dates of acquisition. The fiscal year-end of the Trust is December 31. The results of operations of the subsidiaries in the retail logistics segment have been included in the consolidated financial statements of the Trust using their January 31 fiscal year-end.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and investments with a maturity when acquired of three months or less.

Inventories

Inventories comprise purchased goods under a Quebec master distributorship arrangement and are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Capital assets

Capital assets are initially recorded at cost. Government grants received are applied to reduce the cost of the related capital assets. Amortization is provided as follows:

Buildings	40 years straight-line
Warehousing and other equipment	5% to 20% declining balance
Computer equipment and application software	20% to 30% declining balance
Transportation equipment	7 to 10 years straight-line

Leasehold improvements are recorded at cost and amortized on a straight-line basis over the term of the related lease. Assets under capital leases are amortized over the estimated useful life of the asset.

During the development stage of a new warehouse, all direct acquisition, construction, development and overhead costs directly attributable to the construction or development activity are capitalized. Interest, carrying costs and general and administrative costs directly attributable to the acquisition, construction or development of the project are also capitalized. Any rental revenues earned during the development stage are applied against the cost of the assets. Commercial operations are deemed to commence, and the development stage is deemed to end, when the location operates at a minimum of 60% of its designed capacity for at least two months, and at a time normally no longer than two years after the date of commencement of operations.

Warehouses under development are not amortized, provided that the capital cost of the new location does not exceed its recoverable amount.

Intangible assets

Intangible assets are recorded at their fair value at the time of acquisition. Intangible assets with a finite life are amortized to net earnings over the period which management believes is their estimated economic life. The economic life of the retail logistics contracts, which comprise the amount of the intangible asset, is currently estimated to be 7 years. Intangible assets are written down to their fair value when the carrying value is not recoverable and exceeds fair value.

Goodwill

Goodwill represents the excess of the purchase price of the Trust's interest in subsidiary companies over the fair value of the underlying net identifiable assets arising on acquisitions. The Trust reviews the valuation of goodwill on an annual basis or when an event or circumstance occurs which more likely than not reduces the fair value of a reporting unit below its carrying amount. In doing so, the Trust evaluates whether there has been an impairment in the value of goodwill based on a comparison of the fair value of the reporting unit to the underlying carrying value of the reporting unit's net assets, including goodwill. Discounted cash flows are used to determine the fair value of the reporting unit.

Goodwill in 2001 was amortized over its expected useful life except for goodwill acquired after June 30, 2001, which was not amortized. Goodwill was not amortized in 2002 *[note 4[a]]*.

Deferred financing costs

Deferred financing costs consist of financing fees incurred in connection with the issue of debt or the establishment of credit facilities. The financing fees are amortized using the effective yield method over the term of the related debt or credit facility.

Income taxes

The Trust records income taxes using the tax liability method. Under this method, future income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of assets and liabilities and their corresponding tax bases, using substantively enacted income tax rates for the years in which the differences are expected to reverse.

Convertible debentures

As the principal portion of the convertible debentures can be settled by the Trust by the issuance of Trust units, the debenture obligations are, for accounting purposes, classified partly as a liability and partly as Trust equity. The liability component is the present value of the required interest payments, discounted at an interest rate approximating that which would have been applicable to non-convertible subordinated debt at the time the debentures were issued. Interest paid and payable on the convertible debentures is recorded as a repayment of the liability component, and interest on the liability component is recorded as an expense. The equity component is accreted over the term of the convertible debentures through periodic charges to Trust equity such that, on maturity, the equity component equals the principal amount, less issuance costs relating to the equity component, at the date of issue.

Revenue recognition

Revenue is derived primarily from storage, handling, distribution, transportation, logistics management services and retail facility management and is recognized as the services are provided. Amounts billed in advance of providing the services are recorded as deferred revenue. Revenue from sale of goods is recognized when title transfers.

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Foreign currency translation

The accounts of self-sustaining U.S. operations are translated into Canadian dollars using the current rate method, under which all assets and liabilities are translated at the exchange rate prevailing at year-end, and revenue and expenses at average rates of exchange during the year. Gains or losses on translation of these account balances are not included in earnings but are deferred and shown as a separate component of the Trust equity. The appropriate amounts of exchange gains or losses accumulated in the separate component of Trust equity are reflected in earnings when there is a reduction in the Trust's net investment in these subsidiaries as a result of capital transactions.

Transactions of Canadian operations denominated in foreign currencies are translated into Canadian dollars at the rates of exchange in effect on the transaction dates. Foreign currency denominated monetary assets and liabilities of Canadian operations are translated at the exchange rate prevailing at year-end. Exchange gains and losses are included in net earnings for the year.

Foreign currency contracts and options

The Trust enters into foreign currency contracts and options to minimize its exposure to fluctuations in foreign currency exchange rates. These contracts and options are intended normally to hedge the ensuing year's anticipated cash flow from the Trust's self-sustaining U.S. subsidiaries. When the foreign exchange contracts and options are considered effective hedges, as is the case with the hedges entered into by the Trust, exchange gains or losses are accounted for as a component of the related hedged transaction.

Interest rate swaps

Interest rate swaps are used to manage exposures related to future changes in interest rates. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on a basis that matches them with the related fluctuations in the interest payments under floating rate financial liabilities.

Unit-based compensation plan

The Trust has a unit-based compensation plan in place as described in note 14[a]. The Trust uses the intrinsic value method to account for options. As options are granted at market value at the date of grant, no compensation expense is recognized for this plan when options on units are issued to trustees, officers, directors or employees except for unit-based compensation requiring settlement in cash. Any consideration received on exercise of options on units is credited to Trust equity.

Earnings per unit

Basic earnings per unit have been calculated using the weighted average number of units. Diluted earnings per unit have been calculated using the treasury stock method.

Distributable cash generated per unit

[a] Total distributable cash generated per unit

Total distributable cash generated per unit for the year is the aggregate of distributable cash generated per unit amounts determined at each distribution record date during the year, calculated by dividing the distributable cash since the preceding distribution record date by the number of units and exchangeable units outstanding on the record date.

[b] Diluted total distributable cash generated per unit

Diluted total distributable cash generated per unit reflects adjustments to the calculation of total distributable cash generated per unit for the potentially dilutive effect of convertible debentures and unit options, as follows:

It is assumed that all convertible debentures outstanding on each distribution record date have been converted into Trust units. Total distributable cash in the period since the preceding record date is also assumed to increase by the amount of interest paid and payable during the period on the outstanding convertible debentures.

It is assumed that the unit options outstanding on each distribution record date have been exercised, and that the proceeds from their exercise have been used to purchase Trust units at the average market price during the period since the preceding record date. The number of units and exchangeable units outstanding on each distribution record date is assumed to increase by the difference between the number of units assumed to be issued on the exercise of the options and the number of units assumed purchased.

The effect of the convertible debentures is not dilutive for the years ended December 31, 2002 and 2001. Reflecting the adjustment for unit options, the diluted total distributable cash generated per unit for the year ended December 31, 2002 amounted to $0.92 per unit [2001 - $0.89] as compared with actual cash generated of $0.92 per unit [2001 - $0.90].

4. CHANGES IN ACCOUNTING POLICIES

[a] In August 2001 The Canadian Institute of Chartered Accountants issued Handbook Section 3062 "Goodwill and Other Intangible Assets" ["CICA 3062"]. CICA 3062 requires goodwill and other intangible assets with indefinite useful lives no longer be subject to annual amortization beginning with fiscal years starting after January 1, 2002. It also requires goodwill and other intangible assets with indefinite lives to be tested for impairment on an annual basis, or more frequently, if appropriate, and any write downs be charged against earnings. A transitional provision required goodwill acquired in business combinations after June 30, 2001 not be amortized.

Effective January 1, 2002, the Trust adopted these new recommendations prospectively without restatement of any comparable period as recommended by CICA.

In accordance with CICA 3062, the Trust completed an impairment test to identify whether there was any potential impairment to goodwill as at January 1, 2002 and determined that no impairment existed.

Prior to the adoption of CICA 3062 coming into effect, goodwill impairment was assessed based on estimated future undiscounted cash flows for the business to which the goodwill relates. Under CICA 3062, goodwill impairment is assessed based on a comparison of the fair value of the reporting unit to the underlying carrying value of the reporting unit's net assets, including goodwill. As recommended by the CICA 3062 accounting standard, discounted future cash flows are now used to determine the fair value of reporting units.

The Trust completed its annual goodwill impairment test as at December 31, 2002 and determined that unamortized goodwill of $306 relating to its logistical and distribution services reporting segment was impaired under the new rules. The impairment loss has been recorded as a charge against earnings for the fiscal year ended December 31, 2002.

In accordance with the new recommendations of the CICA, the Trust no longer records amortization expense for goodwill. On an adjusted basis, the Trust's net earnings for the year ended December 31, 2001 would have been as follows if the new rules were applied retroactively:

	2001
	$
Net earnings as reported	11,356
Goodwill amortization, net of taxes	3,597
Adjusted net earnings [per unit $0.50]	14,953

[b] In November 2001, the CICA issued Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments" ["CICA 3870"]. This new standard is effective for fiscal years beginning on or after January 1, 2002.

This new section encourages, but does not require, the use of the fair value method for stock-based compensation paid to employees or, alternatively, to provide disclosure of pro forma net earnings and earnings per unit data, as if stock-based compensation had been recognized in earnings. For awards to employees that settle in cash, compensation cost for the year should reflect the difference between the market price at period end and the value price specified in the award adjusted for amounts recognized in previous periods.

The Trust has adopted CICA 3870 prospectively effective January 1, 2002 and has elected to continue accounting for employee stock options using the intrinsic method; accordingly, the adoption of CICA 3870 had no effect on the Trust's reported earnings for the year ended December 31, 2002 *[note 14[a]]*.

5. BUSINESS ACQUISITIONS

The assets acquired and liabilities assumed on the acquisition of businesses during the years are summarized as follows:

	2002				2001
	Coolstor	**CSI**	**TCT**	**Totals**	**Blue Star**
	$	$	$	$	$
	[note 5[a]]	*[note 5[b]]*	*[note 5[c]]*		*[note 5[d]]*
Current assets	995	15,182	—	16,177	1,294
Intangible assets	—	10,099	—	10,099	—
Capital assets	25,624	207,852	5,672	239,148	27,000
Assets under capital lease	—	—	12,837	12,837	—
Total assets	26,619	233,133	18,509	278,261	28,294
Current liabilities	(236)	(11,263)	—	(11,499)	(1,035)
Future income taxes	—	—	—	—	(6,720)
Equipment financing loans	—	(1,351)	(11,427)	(12,778)	—
Net identifiable assets acquired	26,383	220,519	7,082	253,984	20,539
Goodwill acquired	—	5,621	—	5,621	12,545
	26,383	226,140	7,082	259,605	33,084
Purchase consideration					
Cash	25,440	216,720	5,582	247,742	31,691
Acquisition and restructuring costs	943	9,420	1,500	11,863	1,393
	26,383	226,140	7,082	259,605	33,084

These acquisitions were all accounted for using the purchase method whereby the results of operations have been included in the consolidated financial statements from the respective dates of acquisition.

[a] On October 1, 2002, the Trust through one of its wholly-owned subsidiaries purchased two temperature-controlled warehouse facilities in Minnesota from Coolstor Inc. ["Coolstor"] for $25,440 [U.S. $16,183] cash.

The acquisition and restructuring costs of $943 relate to professional fees, employee severance and reorganization costs associated with the purchase of these assets. As at December 31, 2002, $289 had been applied against this accrual.

[b] On October 22, 2002, Atlas Cold Storage USA, Inc. ["Atlas USA"] [a wholly-owned subsidiary of the Trust] acquired fourteen PRW facilities [one of which is subject to a long-term ground lease] and the leases in respect of two additional PRW facilities from CS Integrated LLC ["CSI"] for an aggregate purchase price of $201,000 [U.S. $127,862]. In addition, Atlas USA acquired the equity interests in certain entities which operate four distribution centers for a single retail customer, for approximately $15,720 [U.S. $10,000]. Up to an additional $11,813 [U.S. $7,500] is payable over three years with respect to these retail logistics interests, based on the financial results of the distribution centers. The Trust will record any such future amounts paid as an adjustment to the purchase price as they become determinable.

The acquisition and restructuring costs of $9,420 relate to professional fees, employee severance and reorganization costs associated with the purchase of these assets. As at December 31, 2002, $4,786 had been applied against this accrual.

Due to the significance and timing of this acquisition, the purchase price allocation currently reflects management's best estimates, and may need to be adjusted further as and when revised estimates are determined.

[c] On March 20, 2002, Atlas Supply Chain Services Limited [a wholly-owned subsidiary of the Trust] acquired certain assets and operations of a temperature-controlled transportation business from the receiver of TCT Logistics Inc. ["TCT"] for a purchase price of $5,582. The purchased assets include 37 tractors, 127 refrigerated trailers, the customer base and the information management systems. Also included in this acquisition are interests in 49 tractors and 171 refrigerated trailers, the related financing for which has been accounted for as capital equipment financing leases *[note 10]*.

The acquisition and restructuring costs of $1,500 relate to employee severance and reorganization costs and professional fees. As at December 31, 2002, $1,466 had been applied against this accrual.

[d] In the 2001 year, effective August 1, 2001, the Trust acquired 100% of the common shares of Blue Star Cold Storage Inc. and Blue Star Cold Storage Ltd. [collectively "Blue Star"] for $31,691. The Blue Star companies operated temperature-controlled storage, handling and logistical services in Western Canada. The acquisition was accounted for using the purchase method, whereby the results of the operations have been included in the consolidated financial statements commencing August 1, 2001.

The acquisition and restructuring costs relate to employee severance costs, reorganization costs and professional fees associated with the purchase of these companies. Actual costs were $300 less than estimated and this amount has been applied to reduce the amount of goodwill originally estimated. As at December 31, 2002, the restructuring accrual has a nil balance.

[e] Effective August 27, 2001, Atlas Holdings acquired the remaining 50% ownership of Atlas Cold Logistics Limited for $20 and incurred restructuring costs of $225. The acquisition resulted in an increase in goodwill in 2001 of $306. Such goodwill has been written down in 2002 *[note 4[a]]*.

6. CAPITAL ASSETS

Capital assets consist of the following:

	2002		2001	
	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $
Land	47,716	—	30,499	—
Buildings	447,189	29,041	273,524	20,495
Warehousing and other equipment	172,056	28,542	83,731	21,747
Transportation equipment	18,558	2,495	—	—
Computer equipment and application software	29,701	6,471	12,987	3,285
Leasehold improvements	8,266	1,511	5,790	700
Assets under development	3,941	—	4,305	—
	727,427	68,060	410,836	46,227
Less accumulated amortization	68,060		46,227	
	659,367		364,609	

During the year, the Trust capitalized interest of $265 [2001 - $493] during the construction and development of the expansion of the warehouse facilities in Montreal (Quebec), Vaughan (Ontario) and Calgary (Alberta).

7. DEFERRED FINANCING COSTS

Deferred financing costs consist of the following:

	2002 $	2001 $
Deferred financing costs	4,919	6,847
Less accumulated amortization	2,088	2,294
	2,831	4,553

8. INTANGIBLE ASSETS

Intangible assets consist of the following:

	2002 $	2001 $
Fair value of retail logistics contracts [U.S. $6,424]	10,134	—
Less accumulated amortization	586	—
	9,548	—

9. GOODWILL

Goodwill consists of the following:

	2002 $	2001 $
Goodwill	99,944	95,275
Less accumulated amortization	16,880	16,961
	83,064	78,314

10. LONG-TERM DEBT

On July 9, 2001, the Trust, Atlas Holdings and their direct and indirect subsidiaries entered into agreements for credit facilities [the "Facilities"] with a syndicate of Canadian and U.S. lending institutions.

On October 22, 2002, the Facilities were renegotiated to increase the maximum availability from $191,500 to $306,500 [or its U.S. dollar equivalent] and to extend the maturity date to July 2004. The Facilities contain a renewal option for the Trust to extend the maturity date for one additional year.

The Facilities are subject to certain conditions and restrictive covenants, including repayment acceleration provisions, at the lenders' discretion, if either TD Capital [an entity with board representation as a representative of the TD Capital Private Equity Partners Group] or the holder of the 1177 Special shares *[note 13[a]]* [a company controlled by certain officers of Atlas Holdings] ceases to be entitled to nominate members to the Board of Directors of Atlas Holdings. The terms of the Facilities require that the net proceeds of any Treasury offering of securities by the Trust must be applied to reduce the principal amount outstanding under such Facilities. The Facilities provide, however, that the amount by which the Facilities are reduced using the net proceeds of any equity offering will be available to the Trust, Atlas Holdings and their direct and indirect subsidiaries for further expansion and/or acquisitions, as well as for general corporate purposes.

The Facilities require certain subsidiaries to maintain specific financial ratios and to comply with other covenants.

The Facilities are collateralized by all of the assets of the Trust, Atlas Holdings and their direct and indirect subsidiaries, including a pledge of all shares and inter-company loans of the Atlas group of companies.

Long-term debt consists of the following:

	2002 $	2001 $
Facilities [i]	227,126	95,812
Equipment financing leases [ii]	12,256	2,196
	239,382	98,008
Less current portion	3,047	608
	236,335	97,400

[i] As at December 31, 2002, subsidiaries of the Trust had drawn down $2,633 in Canadian dollar [2001 - $5,500] and $224,493 [U.S. $142,300] in United States dollar denominated loans [2001 - $90,312 [U.S. $56,700]] or a total of $227,126 [2001 - $95,812]. As at December 31, 2002, the Facilities consisted of floating rate advances bearing interest at the bank's base lending rate plus an applicable margin of 0% to 1.75%. The effective interest rate on these floating rate advances were 4.25% for Canadian and U.S. dollar advances as at December 31, 2002.

Under the Facilities, subsidiaries of the Trust can arrange for the lenders to issue letters of credit on their behalf. As at December 31, 2002, subsidiaries of the Trust had arranged for the issuance of letters of credit aggregating $5,796 [U.S. $3,674] [2001 - nil]. Letters of credit bear interest at 0.125% plus an applicable margin of 1% to 2.75%.

Subsidiaries of the Trust have entered into various interest rate hedges consisting of interest rate swap contracts that oblige them to pay interest at fixed rates and entitle them to receive interest at floating rates based on principal amounts specified in the contracts. The contracts require the payment or receipt of the net amount of interest on a quarterly basis, effectively converting the Trust's related floating rate debt into a fixed rate obligation. Contracts in effect as at December 31, 2002 are as follows:

Notional amount U.S.	Termination date	Fixed rate %	Floating rate	Unrealized fair value loss $
30,000	June 16, 2004	1.8425	LIBOR	(204)
30,000	June 30, 2004	2.1200	LIBOR	(346)
5,750	September 30, 2004	6.5300	LIBOR	(767)
70,000	November 26, 2004	3.5850	LIBOR	(3,948)
135,750				(5,265)

After allowing for the effect of interest rate swap contracts, a substantial portion of the Facilities were effectively converted from floating interest rates to fixed interest rates [ranging from 2.72% to 7.41% per annum].

[ii] Certain subsidiaries have equipment financing leases mainly with respect to truck and trailer leases, bearing interest at rates ranging from 5.5% to 8.5% [2001 - 8.75% to 14.89%], collateralized by specific equipment and maturing from 2004 to 2006.

At December 31, 2002, the equipment financing leases required annual rental payments as follows:

	$
2003	3,615
2004	3,482
2005	3,426
2006	3,122
	13,645
Less interest and other charges	(1,389)
Obligations under capital leases	12,256
Less current portion	(3,047)
Long-term portion of obligations under capital leases	9,209

11. CONVERTIBLE DEBENTURES

During 1999, the Trust issued unsecured, subordinated convertible debentures [the "debentures"] in the aggregate principal amount of $46,000. The net proceeds of the issue amounted to $42,660 after deducting total issue costs of $3,340, of which $1,840 was allocated against the equity component of the debentures and $1,500 was recorded as a deferred financing cost. The debentures bear interest at 12% per annum, payable semi-annually on June 30 and December 31 of each year, and mature on June 30, 2004.

These debentures were classified on issuance as follows:

	$
Issue price	46,000
Less liability component	(21,189)
Less issue costs related to equity component	(1,840)
Equity component at issuance	22,971

At December 31, these debentures consist of the following:

	2002 $	2001 $
Current portion of liability component	2,232	3,093
Long-term liability component	1,214	5,350
Equity component	16,787	22,960
	20,233	31,403

The debentures may be converted into Trust units at the option of the holder at a conversion price of $8.25 per Trust unit at any time prior to the earlier of maturity and the day preceding a date specified by the Trust for redemption. The Trust may, at its option, commencing on or after July 2, 2002 and before maturity, redeem the debentures at a price equal to their principal amount plus accrued and unpaid interest provided that the trading price of the Trust units is not less than 125% of the $8.25 conversion price [$10.31 per Trust unit]. On redemption or maturity, the Trust may, at its option and subject to regulatory approval, settle the principal amount in effect by the issuance of Trust units based on the lesser of 95% of their market value at that time or $8.25 per Trust unit.

During 2002, debentures with a value of $11,176 [2001 - $12,665] [principal value of $11,665 [2001 - $13,194] net of related issue costs of $489 [2001 - $529]] were converted at the holder's option into 1,413,919 [2001 - 1,602,283] Trust units *[note 13[b]]*.

Interest of $614 [2001 - $1,425] on the liability component has been included in the computation of net earnings for the year. The equity component has been accreted by charges to Trust equity of $2,292 during 2002 [2001 - $3,290].

Interest paid on the debentures qualifies for reinvestment under the Trust's Distribution and Interest Reinvestment and Optional Cash Payment Plan *[note 13[d]]*.

12. FINANCIAL INSTRUMENTS

Fair value

The Trust has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Trust could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions and methodologies. The methods and assumptions used to estimate the fair value of financial instruments are described below.

The fair market values of the Trust's current financial assets and liabilities approximate their carrying values due to their short-term nature. The fair market values of long-term debt instruments are also considered to approximate their carrying values.

The fair value of the convertible debentures based on their closing market price at December 31, 2002 is $27,240 [2001 - $43,599]. The principal amount as at December 31, 2002 is $21,116 [2001 - $32,781].

Foreign exchange risk

Risk from foreign exchange arises as a result of variations in exchange rates between the Canadian and the U.S. dollar. This risk affects the Trust's operating and financial results. The Trust earns a significant portion of its operating revenue in U.S. dollars and uses foreign exchange forward contracts on a year-by-year basis to reduce its exposure to this foreign exchange risk. In addition, foreign exchange risk relating to capital assets is reduced through the matching of U.S. dollar denominated assets with U.S. dollar denominated long-term financing.

During the year, subsidiaries of the Trust entered into forward contracts to sell U.S. $45,970 [Cdn. $72,380] that will be exercised over a two-year period at a weighted average exchange rate of $1.5745. Based on forward exchange rates at December 31, 2002, for contracts with similar remaining terms to maturity, the unrecognized net loss relating to the Trust's forward exchange contracts is approximately $902 [2001 - $180]. If the Trust's forward exchange contracts ceased to be effective hedges, for example if projected U.S. dollar net cash inflows declined significantly, previously unrecognized gains or losses pertaining to the portion of the hedging transaction in excess of projected foreign denominated cash inflows would be recognized at the time this condition was identified.

Credit risk

The Trust's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, accounts receivable and forward exchange contracts with positive values.

Cash and cash equivalents consist of short-term investments and deposits with banks and financial institutions that the Trust anticipates will satisfy their obligations.

In Canada, the Trust has a right of warehouseman lien over all customer inventory maintained in its possession. The lien gives the Trust a security on inventory held on behalf of customers for any outstanding receivables for warehousing and distribution services provided. The Trust has in place a policy for holding the release of inventory to customers with excessive accounts receivable balances. In the United States, the Trust has a right of storers' lien, which effectively operates as above. Accordingly, the Trust believes there is no unusual exposure associated with the collection of its trade receivables.

The Trust is also exposed to credit risk from the potential default by any of its counter-parties on foreign exchange forward contracts and interest rate swaps. The Trust mitigates this credit risk by dealing with counter-parties which are major financial institutions.

Interest rate risk

The Trust's exposure to interest rate risk on variable rate long-term debt is reduced through the use of interest rate swap contracts *[note 10[i]]*.

13. TRUST EQUITY

[a] *Trust units*

The Trust was established on February 25, 1997 for nominal proceeds. An unlimited number of Trust units may be issued pursuant to the Declaration of Trust.

In connection with the acquisition of Atlas Limited on August 11, 2000, the Trust made a change in its voting arrangements by creating and issuing for nominal consideration Non-Participating Voting Units to the holders of Class C Common shares, 1177 Special shares, CIC Special shares and Class X shares of Atlas Holdings. The Non-Participating Voting Units give these shareholders voting rights as unitholders in the Trust equivalent to what they would have if they had exchanged their shares into Trust units. At the same time, the shareholders gave up their voting rights as shareholders of Atlas Holdings, except in the event of any liquidation of the assets of Atlas Holdings.

[b] *Capital contributions*

Details of capital contributions with respect to Trust units and exchangeable shares in Atlas Holdings are as follows:

	Unitholders' capital		Class C Common and Series 2 preferred exchangeable shares		Special exchangeable shares		Class X exchangeable shares			
	Number #	Amount $	Number #	Amount $	Number #	Amount $	Number #	Amount $	Total #	Total $
2001										
Balance, beginning of year	16,723,136	147,249	682,687	6,827	4,577,076	33,389	175,240	1,411	22,158,139	188,876
Issue of Trust units for cash	16,437,312	145,680	—	—	—	—	—	—	16,437,312	145,680
Options exercised	494,755	3,596	—	—	—	—	—	—	494,755	3,596
Distribution reinvestment plan	617,382	5,432	—	—	—	—	—	—	617,382	5,432
	17,549,449	154,708	—	—	—	—	—	—	17,549,449	154,708
Debenture conversion	1,602,283	12,665	—	—	—	—	—	—	1,602,283	12,665
Issue of Trust units for exchangeable shares	21,643	217	(21,643)	(217)	—	—	—	—	—	—
Distribution reinvestment on Special shares	—	—	—	—	174,516	1,490	—	—	174,516	1,490
Balance, December 31, 2001	35,896,511	314,839	661,044	6,610	4,751,592	34,879	175,240	1,411	41,484,387	357,739
2002										
Issue of Trust units for cash	17,263,000	185,941	—	—	—	—	—	—	17,263,000	185,941
Options exercised	20,400	178	—	—	—	—	—	—	20,400	178
Distribution reinvestment plan	594,807	6,352	—	—	—	—	—	—	594,807	6,352
	17,878,207	192,471	—	—	—	—	—	—	17,878,207	192,471
Debenture conversion	1,413,919	11,176	—	—	—	—	—	—	1,413,919	11,176
Issue of Trust units for exchangeable shares	180,510	1,805	(180,510)	(1,805)	—	—	—	—	—	—
Distribution reinvestment on Special shares	—	—	—	—	100,443	1,072	—	—	100,443	1,072
Balance, December 31, 2002	55,369,147	520,291	480,534	4,805	4,852,035	35,951	175,240	1,411	60,876,956	562,458

Effective May 27, 1997, the Trust acquired, through a subsidiary, all of the issued and outstanding shares of Associated Freezers. As part of the consideration for this acquisition, the Trust caused Associated Freezers to issue Class C Common shares and Series 2 Preferred shares in the amount of $14,828 exchangeable by the holders thereof into an aggregate of 1,482,752 Trust units. During 2002, 180,510 [2001 - 21,643] Class C Common shares and Series 2 Preferred shares were exchanged for Trust units by the holders.

[c] Trust unit offerings

During 2002, the Trust completed two unit offerings. The details of these offerings are as follows:

	2002			
Date	Units issued #	Price per unit $	Gross proceeds $	Net proceeds $
August 29, 2002	7,460,000	11.40	85,044	80,392
October 15, 2002	9,803,000	11.55	113,225	107,819
Total	17,263,000		198,269	188,211

Unit offerings in 2001 were as follows:

	2001			
	Units issued #	Price per unit $	Gross proceeds $	Net proceeds $
March 6, 2001	6,185,062	8.70	53,810	51,034
July 27, 2001	4,197,500	9.60	40,296	37,236
November 23, 2001	6,054,750	10.45	63,272	59,664
Total	16,437,312		157,378	147,934

Net proceeds of $188,211 are after deduction of underwriters' fees and other issuance costs aggregating $10,058. Of the net proceeds, $2,270 [2001 - $2,254] was recorded as a distribution payable to equalize the unitholder distributions to be made for the respective quarters, and the balance of $185,941 [2001 - $145,680] was recorded as a capital contribution by unitholders. Equalization payments are made in order that new unitholders effectively contribute a pro rata amount towards the quarterly distribution for the period ending after the offering.

[d] Distribution and interest reinvestment and optional cash payment plan

The Trust maintains a distribution and interest reinvestment and optional cash payment plan for the unitholders and convertible debentureholders. All distributions and interest payments may be reinvested in the Trust by purchasing Trust units at a discount of 5% below the 10-day trailing average market price. Each participant may also make an optional cash payment up to the maximum of the greater of the distribution received or $20 per quarter [in the case of unitholders] and up to a maximum of the greater of the interest payment received or $40 semi-annually [in the case of the convertible debentureholders].

[e] Exchangeable shares of Atlas Holdings

Details concerning the exchangeable shares of Atlas Holdings are as follows:

Class C Common shares

The holders of Class C Common shares receive dividends when cash distributions are made on Trust units. The Class C Common shares are exchangeable in conjunction with the Series 2 Preferred shares into Trust units.

Holders of such shares have the right to, at any time or from time to time, and must upon certain specified circumstances, exchange their Class C Common shares and Series 2 Preferred shares into Trust units.

Holders of such shares have voting rights in the Trust as holders of Non-Participating Voting Units [see above].

Series 2 Preferred shares

The holders of Series 2 Preferred shares were not entitled to receive notice of or attend any meeting of the shareholders of Atlas Holdings and were non-voting. The holders of Series 2 Preferred shares were entitled to receive fixed, non-cumulative cash dividends at a rate of 8% per annum. The Series 2 Preferred shares were redeemable and retractable at a price of $10 per share plus declared and unpaid dividends. During December 2001 the last of the Series 2 Preferred shares were redeemed.

Special shares

On August 11, 2000, 960,000 CIC Special shares, 3,540,000 1177 Special shares and 300,000 Class Z Special shares were issued as consideration for the acquisition of Atlas Limited. As at December 31, 2002, 250,000 CIC Special shares [2001 - 250,000] had been exchanged for Trust units and 300,000 Class Z Special shares [2001 - 150,000] had been exchanged for 1177 Special shares.

The exchangeable units with respect to Special shares at December 31, 2002 consist of 710,000 exchangeable units for CIC Special shares [2001 - 710,000], 4,142,035 exchangeable units for 1177 Special shares [2001 - 3,891,592] and nil exchangeable units for Class Z Special shares [2001 - 150,000].

The holders of the Special shares are not entitled to receive notice of or attend any meeting of shareholders of Atlas Holdings and are non-voting, redeemable, retractable and exchangeable for Trust units. The shares are retractable at the option of Atlas Holdings for Trust units.

Each CIC and 1177 Special share entitles the holder to receive a cumulative dividend equal to the distribution that would have been paid or otherwise been made by the Trust to such holder had it held the number of Trust units into which such holder's Special shares are exchangeable.

The Class Z Special shares were not entitled to dividends and were not redeemable or retractable. On August 11, 2002, 150,000 Class Z Special shares were automatically converted, on a share for share basis, into 1177 Special shares. 150,000 Class Z Special shares had been automatically converted on August 11, 2001.

The holders of the CIC and 1177 Special shares have voting rights in the Trust as holders of Non-Participating Voting Units [see above].

Class X shares

The Class X shares are non-voting and are exchangeable into Trust units. The holders of Class X shares are entitled to receive equivalent dividends when distributions are paid on Trust units.

The holders of such shares have voting rights in the Trust as holders of Non-Participating Voting Units [see above].

[f] Distributions

Distributions are made quarterly, based upon estimated distributable cash for the year, to the holders of record of the Trust units and of other shares that are exchangeable into Trust units. Distributions with respect to 2002 were as follows:

Record date	Original payment date	Distributions per Trust unit or exchangeable unit $	Trust unitholders $	Class C Common Shares $	Special Shares $	Dividends on Class X Shares $	Total $
March 31, 2002	April 15, 2002	0.23	8,458	137	1,064	40	9,699
June 30, 2002	July 15, 2002	0.23	8,516	116	1,070	40	9,742
September 30, 2002	October 15, 2002	0.23	10,430	115	1,110	40	11,695
December 31, 2002	January 15, 2003	0.25	13,842	120	1,213	44	15,219
		0.94	41,246	488	4,457	164	46,355

Distributions with respect to 2001 were as follows:

Record date	Original payment date	Distributions per Trust unit or exchangeable unit $	Trust unitholders $	Class C Common and Series 2 Preferred Shares $	Special Shares $	Dividends on Class X Shares $	Total $
March 31, 2001	April 15, 2001	0.23	5,240	152	997	40	6,429
June 30, 2001	July 16, 2001	0.23	5,285	152	1,008	40	6,485
September 30, 2001	October 15, 2001	0.23	6,783	152	1,053	40	8,028
December 31, 2001	January 15, 2002	0.21	7,507	139	966	38	8,650
		0.90	24,815	595	4,024	158	29,592

[g] Cumulative foreign currency translation account

The unrealized translation adjustment, which arises on the translation to Canadian dollars of assets and liabilities of the Trust's self-sustaining foreign operations, resulted in an unrealized cumulative foreign currency translation (loss)/gain of $(2,138) [2001 - $2,322], primarily from the strengthening of the Canadian dollar against the United States dollar, during the year.

14. UNIT-BASED COMPENSATION

[a] Unit-based compensation plan

The Trust Unit Option Plan reserves a total of 2,000,000 Trust units for grants to directors, officers and employees of Atlas Holdings, and to the trustees of the Trust. As at December 31, 2002, 547,414 Trust unit options [2001 - 723,442] remained available for future grant.

Options granted to officers and employees normally vest over a five-year period. Options granted to directors and trustees normally vest at the time of grant.

The exercise price of the options equal the market price of the Trust units at the time of grant and all unexercised options normally expire ten years after the grant date.

A summary of the status of the Trust unit option plan as at December 31, 2002 and 2001 and changes during the years then ended is as follows:

	2002		2001	
	Number #	Weighted average exercise price $	Number #	Weighted average exercise price $
Options outstanding, beginning of year	565,076	9.29	834,923	8.21
Granted	176,028	11.55	224,908	10.00
Terminated	(75,730)	9.84	—	—
Exercised	(20,400)	(8.74)	(494,755)	(7.29)
Options outstanding, end of year	644,974	9.86	565,076	9.29

As at December 31, 2002, 534,465 options have vested and are available for exercise [2001 - 418,967]. The price at which the options may be exercised range from $7.08 to $11.55 and the weighted average contractual life of the outstanding options is 5.02 years [2001 - 7.66 years].

As at December 31, 2002, the range of exercise prices for the options outstanding and exercisable [vested] are as follows:

Price range	Number of options outstanding #	Weighted average exercise price $	Number of options exercisable #	Weighted average exercise price $
$7.00 - $8.00	140,470	7.14	50,502	[illegible]
$9.00 - $10.00	285,976	9.94	270,435	[illegible]
$11.00 - $12.00	218,528	11.52	213,528	11.52
	644,974		534,465	

No compensation expense has been recognized by the Trust for options on units issued under the plan. [illegible] recommendations *[note 4[b]]* require note disclosure of estimated compensation expense for unit [illegible] subsequent to January 1, 2002 assuming the Trust recognized the cost of its unit-based compensation [illegible] estimated fair value of unit options granted.

The fair value of unit options is estimated at the date of grant using the Black-Scholes option pricing [illegible] following weighted average assumptions:

	%
Risk free interest rate	[illegible]
Expected dividend yield	[illegible]
Expected volatility	[illegible]
Expected time until exercise	5 years

The weighted average fair value of options granted at a price of $11.55 during the year was $0.90 per unit [illegible] approximately 7.8% of the market price of the Trust units at date of grant.

The Black-Scholes options valuation model used by the Trust to determine fair values was developed for use in [illegible] the fair value of freely traded options which are fully transferable and have no vesting restrictions. In addition, this model requires the input of highly subjective assumptions, including future unit price volatility and expected time until exercise. Because the Trust's outstanding unit options have characteristics which are significantly different from those of traded options and because changes in any of the assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of the unit options.

For purposes of pro forma disclosure, the Trust's net earnings and basic and fully diluted earnings per unit for the year would have been as follows:

	Actual $	Proforma $
Net earnings	19,045	18,887
Earnings per unit		
Basic	0.40	0.40
Diluted	0.39	0.38

[b] Restricted phantom units

The Trust has granted restricted phantom units ["RPUs"] to certain employees which entitle the participant to receive a cash payment. The RPUs vest after three years from the date of granting at which time they may be redeemed for cash calculated as the aggregate of the then market value of the Trust's related Trust units plus the cash distributions paid over the three intervening years. Compensation expense related to the RPUs is accrued over the term of the RPU based on the expected total compensation to be paid out at the end of the restriction period.

For the year ended December 31, 2002, the compensation expense is $234 [2001 - $273] under the contractual obligation for the RPUs.

A summary of the RPUs and the movement during the year is as follows:

	2002		2001	
	Number \#	Weighted average exercise price $	Number \#	Weighted average exercise price $
RPUs outstanding, beginning of year	54,529	8.80	30,768	7.80
Granted	20,779	11.55	23,761	10.10
RPUs outstanding, end of year	75,308	9.56	54,529	8.80

As at December 31, 2002, no RPUs have vested or are available for exercise.

15. RELATED PARTY TRANSACTIONS

Transactions with related parties are recorded at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties.

[a] On August 11, 2000, a subsidiary of the Trust entered into lease and licensing agreements for the Wisconsin facilities and equipment owned by Spire Freezers Limited, a company indirectly owned and controlled by certain officers of Atlas Holdings. The initial term of these agreements was for fifteen years, with the right to two renewal periods of further five-year terms. The subsidiary pays U.S. $1,750 per annum in equal monthly installments of U.S. $146 for the first five years of the term. The per annum charges will be renegotiated at the end of every five-year period for an amount not less than the charge in the previous five-year term. The subsidiary is responsible for all applicable property taxes, operating costs and a defined amount of sustaining capital expenditures. The subsidiary incurred an expense of $2,748 during 2002 [2001 - $2,710] with respect to the lease and license agreements.

[b] The syndicate of Canadian and U.S. lending institutions *[note 10]* includes The Toronto-Dominion Bank, which is related to TD Capital.

16. INCOME TAXES

The Trust is structured to qualify as a mutual fund trust under the Income Tax Act (Canada) and is therefore not subject in 2002 and 2001 to taxation on its income that was distributable to its unitholders. The Trust's subsidiaries are subject to taxation on their income at statutory corporate tax rates.

Future income tax assets and liabilities in the accompanying consolidated balance sheets reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as follows:

	Asset		Liability	
	2002 $	2001 $	2002 $	2001 $
Tax effect of temporary differences relating to				
Capital assets	(3,681)	(7,015)	24,207	17,829
Deferred financing costs	3,050	18	(166)	(1,969)
Goodwill	755	(558)	(3,355)	(7)
Other, net	(634)	113	1,509	(2)
Loss carryforwards	2,204	9,662	(8,675)	(4,705)
Valuation allowance	—	—	3,883	2,808
Total future tax assets/liabilities	1,694	2,220	17,403	13,954

The provision for income taxes in the accompanying consolidated statements of earnings differs from that which would be [illegible] by applying the Canadian statutory income tax rate as follows:

	2002 $	2001 $
Earnings before income taxes	24,015	12,970
Earnings of the Trust subject to tax in the hands of unitholders, not the Trust	(18,187)	(13,359)
Income (loss) of subsidiary companies	5,828	(389)
Canadian statutory income tax rate	38.62%	41.41%
Income taxes at statutory rate	2,251	(161)
Adjustments for the tax effect of		
Non-deductible expenses	204	1,039
Net decrease in future income tax assets resulting from reductions in enacted tax rates	182	—
Increase in valuation allowance and other	1,482	413
Large corporations and minimum taxes	851	323
Provision for income taxes	4,970	1,614
Consisting of provision for		
Current income taxes	851	323
Future income taxes	4,119	1,291
	4,970	1,614

As at December 31, 2002, the Trust's Canadian and U.S. subsidiaries had losses for income tax purposes aggregating approximately $11,215 and $19,537 [U.S. $12,384], respectively. These income tax losses are available as carry-forwards to reduce future years' taxable income of the Canadian subsidiaries for 7 years and of the U.S. subsidiaries for periods ranging from 15 to 20 years. Losses of Canadian and U.S. subsidiaries expire commencing in 2004 and 2018, respectively. The benefit of these losses has been reflected in the accounting provisions to date for income taxes, other than with respect to $4,960 thereof.

17. CONSOLIDATED STATEMENTS OF CASH FLOWS

The net change in non-cash operating working capital balances consists of the following:

	2002 $	2001 $
Accounts receivable	(15,506)	(3,534)
Inventories	(1,378)	—
Prepaid expenses	(853)	(2,499)
Accounts payable and accrued liabilities	32,529	696
Deferred revenue	(606)	(430)
	14,186	(5,767)

During the year, capital assets were acquired at an aggregate cost of $66,309 [2001 - $29,990] of which $4,911 [2001 - $4,356] is included in accounts payable and accrued liabilities as at December 31, 2002.

18. LEASE COMMITMENTS

At December 31, 2002, the Trust had commitments under operating leases requiring annual rental payments as follows:

	Equipment $	Premises $
2003	1,523	10,942
2004	1,156	11,281
2005	350	11,823
2006	66	10,606
2007	57	9,201
Thereafter	1,000	66,636
	4,152	120,489

19. CONTINGENCIES

In the ordinary course of business activities, the Trust may be contingently liable for litigation and claims with customers, suppliers and former employees. Management believes that adequate provisions are recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Trust.

20. SEGMENTED INFORMATION

After taking into account the business acquisitions described in note 5, the Trust has determined that Logistical and Distribution Services and Retail Logistics meet the quantitative thresholds for reportable segments. Accordingly, the Trust and its subsidiaries are considered to have operated throughout North America in three operating segments during 2002 and two during 2001, those being the operations of: warehousing services providing temperature controlled storage and handling services; logistical and distribution services; and retail logistics management.

The Trust's internal financial reports provided to executive management segment results on a North American basis by the aforementioned three industry segments. Furthermore, these results segregate Canada and the United States in recognition of each industry segment's management structure and the different geographic risks faced by the divisions that operate in these segments. Customer volumes have a significant impact on divisional operating results, business plans and capital spending budgets.

Customer volumes in each of Canada and the United States are affected by a multitude of factors such as general economic conditions, interest rates and energy costs.

	2002				
	Warehousing services $	Logistical/ distribution services $	Retail Logistics $	Corporate costs $	Total $
Revenues	194,616	46,703	54,414	—	295,733
Earnings before property lease rental, interest, amortization, write-downs and income taxes	63,241	188	3,857	—	67,286
Property and equipment lease rental	7,273	—	—	—	7,273
Interest	—	—	—	8,346	8,346
Amortization and write-downs					
Capital assets	19,514	2,555	—	—	22,069
Deferred financing costs	—	—	—	4,691	4,691
Intangible assets	—	—	586	—	586
Goodwill write-off	—	306	—	—	306
Earnings (loss) before income tax	36,454	(2,673)	3,271	(13,037)	24,015
Capital assets, intangible assets and goodwill expenditures	301,568	8,071	15,720	—	325,359
Capital assets, net	641,217	16,946	1,204	—	659,367
Intangible assets, net	—	—	9,548	—	9,548
Goodwill, net	77,422	—	5,642	—	83,064
Total assets	780,488	22,789	31,120	—	834,397

	2001				
	Warehousing services $	Logistical/ distribution services $	Retail Logistics $	Corporate costs $	Total $
Revenues	155,096	17,026	—	—	172,122
Earnings before property lease rental, interest, amortization and income taxes	53,921	405	—	—	54,326
Property and equipment lease rental	5,601	—	—	—	5,601
Interest	—	—	—	12,809	12,809
Amortization					
Capital assets	13,872	12	—	—	13,884
Deferred financing costs	—	—	—	4,954	4,954
Goodwill	4,108	—	—	—	4,108
Earnings (loss) before income tax	30,340	393	—	(17,763)	12,970
Capital assets and goodwill expenditures	59,329	312	—	—	59,641
Capital assets, net	364,574	35	—	—	364,609
Goodwill, net	78,008	306	—	—	78,314
Total assets	476,271	1,257	—	—	477,528

	2002			2001		
	Canada $	United States $	Total $	Canada $	United States $	Total $
Revenue from external customers	103,039	192,694	295,733	68,302	103,820	172,122
Capital assets, net	248,693	410,674	659,367	201,336	163,273	364,609
Intangible assets, net	—	9,548	9,548	—	—	—
Goodwill, net	33,852	49,212	83,064	34,458	43,856	78,314

21. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2002 consolidated financial statements.

Overview

Atlas Cold Storage Income Trust (the "Trust") is an open ended, limited purpose trust established under the laws of the Province of Ontario. The Trust provides unitholders with regular income distributions and the opportunity for capital appreciation through its ownership of Atlas Cold Storage Holdings Inc. ("Atlas" or "Atlas Holdings").

Through a series of acquisitions and expansions over the past six years, Atlas has developed the largest integrated temperature-controlled network in Canada and the second largest in North America. Atlas operates fifty-four (54) distribution centers through a team of 4,500 employees. Atlas integrates its supply chain service offering to provide temperature-controlled storage, transportation and logistics services to processors, distributors, food service providers and retailers across North America. Atlas operates the only cross border network in North America.

Atlas has invested its financial resources into developing information systems, people and process technology to integrate its business segments. This investment forms the cornerstone for the continued expansion of the Atlas business and provides a competitive advantage to both Atlas and its customers. Atlas has linked all its business segments through a common financial application system and is integrating all of its application programs to a common relational database that will form the foundation for the development of enterprise-wide business intelligence systems.

Integration of the "Cold Chain" by Acquisition and Expansion

Atlas continued with its strategy to build its North American network of temperature-controlled distribution centers and integrate its service offering across the supply chain with a series of expansions and acquisitions in 2002.

Expansions

- In May 2002 Atlas opened a 1.9 million cubic foot expansion to its Calgary, Alberta facility. The Calgary facility, acquired by Atlas in 2001 through the purchase of Blue Star Cold Storage ("Blue Star"), has a total capacity of 5.6 million cubic feet and provides public refrigerated warehousing ("PRW") services to many of Atlas' national Canadian customers.
- As a result of increased demand from its Quebec customer base, Atlas opened a further expansion to its facility in St. Laurent, Quebec in June 2002. This expansion added an additional 1.6 million cubic feet to the facility and was the second expansion undertaken in less than twelve months increasing Atlas' total capacity in the Montreal, Quebec marketplace to 17.7 million cubic feet.
- In August 2002 Atlas completed the construction of a 2.3 million cubic foot expansion to its Vaughan, Ontario facility. As part of the expansion, Atlas increased the office space of this facility to house the central administrative functions for the Ontario region. Upon completion of the expansion, Atlas operates 27.0 million cubic feet in Ontario. The expansion was built to provide additional temperature-controlled distribution space for Atlas' national customers in Ontario.
- Atlas opened a 1.9 million cubic foot expansion to its Chicago area distribution center in Belvidere, Illinois in September 2002. Atlas expanded the Belvidere facility to provide efficient high order assembly and storage services to its major customers at this facility and to expand its service offering and customer base.

Acquisitions

- The acquisition in March 2002 of certain transportation assets of TCT Logistics Inc. ("TCT") through its subsidiary, Atlas Supply Chain Services Limited, provided Atlas with a low cost entry into the refrigerated transportation sector in Canada. The $5.6 million acquisition provided Atlas with a fleet of eighty-six (86) transportation units and two hundred and ninety-eight (298) refrigerated trailer units. In addition, Atlas negotiated owner/operator agreements for a further one hundred (100) transportation units. The Atlas refrigerated transportation fleet is among the largest in Western Canada and provides full load refrigerated transportation services to many of Canada's leading food producers and retailers with services across Canada and into the United States. The acquisition has enabled Atlas to cross-sell transportation and warehousing services to many of its existing warehousing customers.

- On October 1, 2002 Atlas, through its subsidiary, Atlas Distribution Services Limited ("ADS"), began operation as the Master Distributor of ice cream and novelties in the Province of Quebec for a national ice cream producer. The agreement required a nominal investment in the integration of information systems and represented the first time Atlas has taken ownership of inventory. Through its network of Quebec-based distributors, Atlas provides direct-to-store delivery of temperature-controlled products to over four thousand (4,000) retail establishments in Quebec. Atlas operates the largest distribution network in Quebec and expects to leverage this network in the near future with the introduction of additional distribution programs to its Quebec-based customers.

- On October 1, 2002 Atlas, through its subsidiary, Atlas Cold Storage Midwest Limited, acquired two (2) facilities in Southern Minnesota expanding its PRW capacity in the state by 10.6 million cubic feet at a total cost of U.S. $16.2 million. As part of the transaction, Atlas entered into a five (5) year storage and distribution agreement with a national branded frozen food processor. The acquisition further cemented Atlas' position as the leading provider of cold chain services in the Midwest United States. Atlas converted these facilities onto its network-wide common information system platform in November.

- On October 22, 2002 Atlas purchased twelve (12) temperature-controlled facilities, and acquired leasehold interests in two (2) facilities for U.S. $127.8 million from CS Integrated LLC ("CSI") to become the second largest PRW network in North America. These facilities are located in the U.S. Midwest and Southeast where Atlas already has a strong regional presence. Through this acquisition Atlas acquired a leading presence in an important new market in the U.S. Mid Atlantic states. The acquisition also included the purchase of freight management operations in Chicago, Mid Atlantic and South Eastern United States. These programs significantly increased the size of Atlas' existing consolidation programs in the Midwest United States. As a result of this acquisition Atlas is now able to attract and retain its PRW customers by providing non-asset based freight management services to delivery points throughout the United States.

- As part of the October 22, 2002 transaction, Atlas purchased the dedicated retail contract logistics operations of CSI for U.S. $10.0 million and a series of three annual payments of U.S. $2.5 million conditional on the financial performance of the business. The business consists of the operation of four (4) dedicated grocery retail distribution centers in Indiana, Virginia, Georgia and Arizona on behalf of one of the largest grocery retailers in the United States. Atlas expects to expand the third party logistics management services to other retailers across North America.

These acquisitions positioned Atlas as the second largest PRW provider in North America with over 270 million cubic feet of space. Atlas is also now a leading provider of third party logistics management services to some of North America's leading retailers and processors.

The above transactions were funded with proceeds from the Trust's two equity issues in August 2002 and October 2002 and with advances on the Trust's credit facilities. The Trust raised in excess of $198 million in new equity and renegotiated a $306.5 million credit facility among seven financial institutions in 2002.

As a result of the above transactions Atlas has moved from a traditional PRW service provider to an asset-based provider of third party logistical services encompassing the whole supply chain for the fresh and frozen food sectors.

Strength in Information Technology Systems

Following the acquisitions in the fourth quarter of 2002, Atlas began to integrate the two main application systems used in the newly acquired facilities with those of Atlas onto a common information platform. Atlas plans to expend approximately $10.0 million on information systems in 2003 to integrate all applications onto a common system platform. All of the core application systems of the acquired facilities have been linked into Atlas' new financial system that was installed in early 2002. As part of the October 22nd acquisition, Atlas acquired licenses and rights to a real-time warehouse task management application system and a sophisticated relational database that links all systems enterprise wide and connect with our customer base through web and electronic data interchange ("EDI") applications. Atlas has reviewed these systems and will continue the development of these systems in tandem with the development of high level decision support systems. The warehouse application systems will be implemented in certain modern high-volume distribution centers to gain labor productivity improvements, increased order and inventory accuracy. The new task management system has been implemented in six (6) of the recently acquired facilities. Atlas will convert the remaining ten (10) of the sixteen (16) acquired sites onto Atlas' existing application systems.

The continuous flow of management information to our centralized computer systems every minute of every day is an integral element of the Atlas supply chain network. To ensure all Atlas facilities and customers have access to up-to-date management information, Atlas began in late 2001 to enhance its computer disaster recovery procedures with the implementation of a real-time disaster recovery system. These systems use up-to-date technologies to constantly mirror information processed by the distribution facilities and instantly transport it via our telecommunications to an offsite location which replicates our central processing environment. Should there be a failure of the main computer systems all sites would automatically be directed to the remote backup site. Atlas has a comprehensive backup system for all corporate service applications. The backup systems have been tested and used in practice and work effectively in the manner planned.

OPERATING RESULTS

Description of Operations

Atlas derives revenue from three (3) distinct business segments which operate in eight (8) geographical regions in North America.

- Warehousing Services – Atlas' primary busin[illegible] activity is the provision of PRW services from it[illegible] network of temperature-controlled distributi[illegible] facilities. Atlas manages the network on a re[illegible] basis with facilities in cities in the following regi[illegible] **Eastern Canada** (4) – St. John's, Newfoun[illegible] Dartmouth, Nova Scotia (2); Moncton, [illegible] Brunswick; **Quebec, Canada** - Montreal [illegible] **Ontario, Canada** (9) - Toronto (7); L[illegible] Hamilton; **Western Canada** (3) - Calgary, Albe[illegible] Delta and Surrey, British Columbia; U.S. [illegible] (12) - Minneapolis, Minnesota (5); Appleton, G[illegible] Bay, Jefferson (2), Wisconsin; Belvidere [illegible] Chicago, Illinois; Denver, Colorado; U.S. [illegible] (2) – Sikeston and St. Louis, Missouri; U.S. M[illegible] **Atlantic** (6) - York, Hatfield (2), [illegible] Lancaster, Pennsylvania; Buffalo, New York.; [illegible] **Southeast** (10) - Greenville (2), Gaffney, [illegible] Carolina; Cartersville, Pendergrass, [illegible] Atlanta and Douglas, Georgia; Tampa, Florida [illegible] Mobile, Alabama.

- Logistical and Distribution Services – Atlas pr[illegible] freight forwarding and freight brokerage s[illegible] the United States from its PRW network dis[illegible] centers in Buffalo, New York; Green [illegible] Wisconsin; Chicago, Illinois; Denver, Colo[illegible] Hatfield, Pennsylvania; and Atlanta, Georgia [illegible] logistical services division generates reven[illegible] primarily from the creation of consolidated pooli[illegible] and dedicated customer delivery programs.

  Atlas' Canadian asset-based refrigerated transportation service forms part of the logistical and distribution services segment. Atlas initiated operations in this segment in March 2002 with the acquisition of a tractor fleet and refrigerated trailer units from the receiver of TCT. The asset-based transportation service is based in Western Canada and provides full load transportation services across Canada and into the United States from predominantly Western Canadian production based processing facilities and from transportation terminals in Vancouver, British Columbia; Calgary, Alberta; Brampton, Ontario and Montreal, Quebec.

- Retail Logistics – Atlas' third party logistics group provides knowledge-based logistics solutions to customers and clients throughout North America. Retail logistics operates with limited assets deployed in this segment. The third party group draws resources from Atlas' corporate services and leverages the PRW network customer base. Atlas acquired the retail logistics operations of CSI on October 22, 2002. The operation of this business segment consists of the operation on a contract basis of four (4) dedicated grocery retail distribution centers located in Shelbyville, Indiana; Roanoke, Virginia; Atlanta, Georgia and Phoenix, Arizona, on behalf of one of the largest grocery retailers in the United States. Atlas operates these facilities on a cost reimbursement basis plus a management fee tied to facility volumes. Atlas may earn incremental revenue over the base management fee for meeting or exceeding predetermined performance targets. Atlas expects to expand its third party logistics management services to other retailers across North America. The retail logistics segment also consists of the distribution of ice cream products through a network of eight (8) distributors throughout the Province of Quebec through ADS. Atlas entered a master distribution agreement on October 1, 2002 to buy, resell and deliver product through the distributors on behalf of a nationally recognized branded ice cream processor. Upon receiving orders from the processor, Atlas releases inventory from its PRW distribution center to ADS, who purchases the product and immediately resells it to the distributors and some national accounts. Atlas arranges direct-to-store delivery of temperature-controlled products to over four thousand (4,000) retail establishments in Quebec. ADS requires nominal investment and limited working capital.

Atlas operates each business segment and region as a self-sustaining unit. Services provided between business units are based on market rates.

Revenues

As a result of the expansions and acquisitions discussed above Atlas' revenue rose to $295.7 million in the year ended December 31, 2002 up from $172.1 million in the prior year. The increase of 71.8% arose as a result of a $39.5 million increase in PRW revenues, $29.7 million increase in logistical and distribution services, and a $54.4 million increase from the initiation of the third party logistical services.

The $39.5 million increase in PRW revenue is primarily attributable to the acquisitions occurring in the fourth quarter of 2002 which contributed $21.6 million in incremental revenues. This $21.6 million increase was due to the acquisition of the Minnesota assets on October 1, 2002 resulting in an additional $2.2 million of revenue and the acquisition of the CSI assets which provided a further $19.4 million of revenue. In addition, the first full year of revenue from the Blue Star facilities acquired on July 31, 2001, the success from the expansions in Montreal, Toronto and Calgary, and the general growth in all PRW markets generated a further $17.9 million.

The increase of $29.7 million in logistical and distribution services was a result of the purchase of certain transportation assets of TCT on March 20, 2002, which generated $22.2 million from full truckload local delivery transportation services. The acquisition of the CSI transportation division provided the Trust with $7.0 million of the $7.5 million increase in non-asset based freight management services in the United States.

In 2002, the Trust generated $54.4 million dollars from third party logistical services; $1.7 million arose from the sale and distribution of ice cream products and novelties in Quebec with a further $52.7 million generated from the four (4) dedicated retail distribution sites. The Trust did not operate in this business segment in 2001.

Operating and Administrative Expenses

The major operating costs of the Trust's PRW are labor, electricity, realty taxes, ongoing maintenance and information systems management. The Trust continues to control labor costs through productivity initiatives and the increasing automation of warehousing procedures and labor task management.

To the extent possible, Atlas manages its exposure to fluctuating electricity prices through the use and the implementation of computerized utility management systems throughout its network of facilities. These utility management systems regulate power consumption and monitor refrigeration equipment. Atlas operates fifty-four (54) facilities of which three (3) regions operate in electricity markets that are fully deregulated, Alberta, Illinois and Georgia. The utility management systems allow the Trust to regulate and manage its consumption of electricity in these markets, and also in regulated markets. The Trust is positioning itself to manage its utility consumption effectively in a more complex electricity marketplace. Electricity accounts for approximately 11.4% of warehouse operating cost and a general 1% increase in electricity prices across the network would increase total operating costs by 0.12%.

The freight management division operates a consolidated pooling program utilizing third party carriers for all deliveries. The divisions operating costs were 94.0% of revenue in 2002 compared to 97.3% in 2001, the improvement resulting from increases in the program size and better rates negotiated with carriers.

Earnings Before Property Lease Rental, Interest, Amortization, Write-Downs and Income Taxes

In the year ended December 31, 2002, Atlas generated earnings before property lease rental, interest, amortization, write-downs and income taxes of $67.3 million, up 23.9% from $54.3 million in 2001.

The diversification by Atlas into integrated segments of the supply chain has resulted in the expansion of certain business segments as outlined above. The asset backed refrigerated transportation division created from the purchase of certain assets of the former TCT in March incurred EBITDAR losses of $0.9 million for the year. The division managed to maintain the majority of the customer base inherited from TCT while taking steps to reduce its operating costs and increase its revenue. As with many transportation segments the movement of full truckload refrigerated products has been affected by the general economic slowdown experienced in North America and this combined with increasing fuel prices and insurance premiums has resulted in a lower than expected return on this newly created business segment. Atlas expects a turn around in the division's profitability in 2003. The transportation brokerage service in the United States increased profit contribution to $1.1 million from $0.3 million in 2001. The division, with its strong links into the PRW customer base and successful pooling programs, was able to maintain a strong performance despite the economic slowdown in the United States. In total, the transportation services division realized an EBITDAR profit of $0.2 million compared to a $0.4 million profit in 2001. Freight management is an important component of Atlas' integrated service offering.

The retail logistics segment, part of the third party logistics group within Atlas, contributed $3.9 million in EBITDAR. The division was established as a result of the October 22nd acquisition of the contract logistics business of CSI which managed four (4) contract dedicated retail sites. The business unit produced a strong fourth quarter and earned an incentive management fee above the base management fee. The year end for this business unit is January 31st and the results for the period October 23, 2002 through January 31, 2003 have been consolidated into the financial statements of Atlas Cold Storage Income Trust as at December 31, 2002. The Trust expects to expand its third party logistics group in 2003 with the addition of new distribution accounts in Quebec and the expansion of contract logistics management programs in the United States and Canada.

Interest Costs and Other Items

Interest costs on bank term loans for the year were $7.7 million or 2.6% of revenue, compared to $11.4 million or 6.6% of revenue in 2001. Interest costs were significantly lower in 2002 due to equity issues in 2001 and the continued reduction in the weighted average interest rate to 5.68% in 2002 from 7.74% in 2001.

The total amount of interest paid and payable on the 12% convertible debentures was $2.8 million versus $4.7 million in 2001, the reduction over 2001 resulting from the conversion of $11.2 million of debentures during the year. Since the debentures are redeemable at the Trust's option on maturity (or in certain circumstances, prior thereto) for Trust units, $2.3 million of the interest thereon was treated, in effect, as a charge to equity (2001: $3.3 million). The remaining $0.6 million was expensed (2001: $1.4 million).

Amortization and Write-Downs

Amortization in 2002 was $25.9 million or 8.7% of revenue (2001: $22.9 million or 13.3% of revenue). Amortization of tangible capital assets accounted for $22.1 million (2001: $13.9 million), goodwill $nil million (2001: $4.1 million), intangible assets $0.6 million (2001: nil) and deferred financing charges $3.2 million (2001: $5.0 million). As a result of the facilities being renegotiated, the Trust wrote down $1.5 million of financing costs deferred in the previous year.

During the third quarter of 2001 the Trust adopted the application of Section 3062 of the CICA Handbook. As a result, in accordance with the accounting treatment, goodwill arising on acquisitions during the year is not subject to amortization. Each component of goodwill has been reviewed and no write-down of goodwill was required except for $0.3 million relating to the 2001 acquisition of the remaining 50% interest in a local distribution company. The impairment loss was recorded as a charge against earnings.

Taxation

The Trust recorded an expense for future taxes of $4.1 million in 2002 versus a future tax expense in fiscal 2001 of $1.3 million. The expense in 2002 results from the recognition of timing differences between tax depreciation and accounting depreciation at the facilities in the United States and Canada, and the recognition of tax losses in various subsidiaries.

Income earned by the Trust that is distributed annually to unitholders is not subject to taxation in the Trust but is taxed at the individual unitholder level. Trust income for tax purposes that was distributed to unitholders with respect to the 2002 year was approximately $18.2 million (2001: $13.4 million) out of total earnings before income taxes of $24.0 million (2001: $13.0 million).

The U.S. facilities in Green Bay, Wisconsin; Appleton, Wisconsin; Minneapolis, Minnesota (5) and Sikeston, Missouri are owned and operated through a Canadian corporation operating U.S. branches. As a result these entities are subject to U.S. branch taxes. In 2002 the company's branch tax expense was minimal. The company's large corporation tax on capital employed and provincial capital tax was $1.0 million in 2001 and $1.7 million in 2002.

Net Earnings

The net earnings of the Trust for the year ended December 2002 were $19.0 million, versus net earnings of $11.4 million recorded in fiscal 2001. Net earnings for the year, on a fully diluted basis, increased by $0.03 to $0.39. The fourth quarter's net earnings were lower than anticipated due to certain costs incurred relating to the major business acquisitions undertaken in the quarter, increased amortization of deferred financing costs, and charges to future income taxes.

Distributable Cash

The Trust distributes quarterly payments to its unitholders. The Trust paid a distribution of $0.94 per unit and generated distributable cash of $0.92 per unit in 2002. The Trust generated and paid $0.90 per unit for year ending 2001. The $0.02 distribution per unit paid over the distribution generated is a result of certain costs incurred relating to the major business acquisitions. Fourth quarter earnings include the results of operations of acquisitions made on October 1, 2002 and October 22, 2002. Fourth quarter distributable cash generated per unit increased 7.7% to $0.28 from $0.26 in 2001.

The Trust generated total distributable cash of $45.4 million compared to $29.8 million in 2001 and $14.6 million in 2000. Total distributable cash generated has increased by over 200% since 2000.

Distributable cash is calculated by adjusting the net earnings for the Trust for the year for various non-cash items including amortization, write-downs, future income taxes and for interest expensed on convertible debentures, less amounts retained by the Trust to pay interest payable on the convertible debentures and to fund sustaining capital expenditures, and any other reserve deemed prudent.

The Trust increased the number of issued units and unit equivalents outstanding from 41.5 million to 60.9 million as a result of equity issuances and additional units issued through the Distribution and Interest Reinvestment and Optional Cash Payment Plan (the "DRIP Program") during the year, which improved the financial position of the Trust with limited dilution of distributions. Approximately 71.9% of the 2002 distribution (2001: 68.5%) represents a return of capital for tax purposes and therefore was not taxable to unitholders on a current basis. Based on the year end closing market value of the units, this results in an after-tax yield of approximately 7.3% (2001: 7.1%) for those unitholders taxed at the highest marginal personal tax rates.

Liquidity and Capital Resources

Cash provided by operating activities was $65.0 million in 2002, compared with $29.8 million in 2001.

Construction costs of facility expansions undertaken in Calgary, Vaughan, Montreal and Belvidere totalled $37.6 million. Atlas purchased $1.0 million of new transportation assets in 2002. Business acquisition and restructuring costs incurred for the three transactions completed during the year totalled $259.6 million.

The Trust used cash of $27.2 million with respect to other capital assets. Of this amount expended, $5.6 million was used for sustaining capital expenditures, $4.6 million for revenue producing building enhancements, $4.9 million for material handling equipment and $9.1 for information technology upgrades and systems. The information system expenditures include the costs for the upgraded computer disaster recovery system and information system enhancements and initial expenditures for the migration of the newly acquired sites to a common platform in 2003. Atlas expended a further $3.0 million to separate the operating and application systems acquired in the CSI acquisition on October 22, 2002.

Atlas reserved $5.5 million from distributions in 2002 to fund its sustaining capital expenditures mainly with respect to the warehousing assets. Included in this reserve are amounts to fund the replacement of material handling equipment and information systems hardware over their estimated useful life.

Atlas funded its major fixed asset expenditures and acquisitions through a combination of two Trust unit equity issues and by drawing on new credit facilities. During 2002, the Trust issued 17.3 million Trust units for net proceeds of $188.2 million. In addition, Atlas negotiated a new $306.5 million bank facility with seven financial institutions. At December 31, 2002 there was $79.4 million undrawn under the bank facility.

The Trust raised an additional $6.4 million during 2002 through its DRIP Program. In 2003 the Trust anticipates raising in excess of $3.0 million through the DRIP Program.

BUSINESS RISK

Revenue

During 2002 Atlas took steps to reduce its exposure to revenue fluctuations by expanding its warehouse network, and by expanding its service offering beyond the traditional services offered by a PRW provider into other related areas i.e., transportation and third party logistics. However, fluctuations in the demand for food services and consumer demand for frozen food can potentially affect cash flows generated by Atlas. Atlas has been successful in the past in retaining customers and securing new accounts through the continued marketing of its services, thereby reducing the risk to cash flow fluctuation. There is no assurance, however, that revenues generated in fiscal 2002 will be repeated in future years.

The number of Atlas facilities, its geographic diversity, its diversified business segments and broad customer base limits its exposure to changes in demand arising from any one frozen food product, commodity, customer, or region. Where possible, Atlas mitigates the risk to its PRW revenue and leasing revenue by entering into long-term contracts with major frozen food producers, to guarantee minimum revenue from each of its distribution centers. The major agreements can be summarized as follows:

- The Missouri facility is a dedicated distribution center with 5 years remaining on a long-term contract. The contract contains minimum storage requirements that must be met by the customer.
- The Quebec operation has long-term lease agreements with an average of 7 years remaining. In addition, the expanded facility in St. Laurent, Quebec has 6 years remaining on a long-term contract.
- The Vaughan, Ontario facility was built in response to a long-term contract with a major frozen food manufacturer. In 2001, Atlas was awarded the contract for an additional 5 years. The agreement provided Atlas with a guarantee that the company's entire product in the Province of Ontario be stored at an Atlas facility. This provided an effective guarantee over minimum storage quantity.

- The Trust has in place various agreements with frozen food manufacturers and retailers at its facilities throughout North America, which guarantee prices and quantities over the short to medium term (1 through 5 years). The agreements cover facilities in British Columbia, Ontario, Quebec, Wisconsin, Minnesota, South Carolina and Georgia.
- The Trust's subsidiary, ADS, has a long-term contract for the distribution of ice cream products in Quebec with a major frozen food producer which terminates in September 2007. ADS takes ownership and possession of ice cream and novelty inventory. This risk is mitigated through the use of all risk comprehensive insurance.
- The Trust's dedicated logistics group has management contracts in place with a major U.S. food retailer with between one and three years remaining. The contracts cover the facilities in Shelbyville, Indiana; Roanoke, Virginia; Atlanta, Georgia; and Phoenix, Arizona.

Competitors

Atlas faces competition from many sources throughout North America. One or more of Atlas' competitors have substantially greater resources with which to pursue internal expansion projects, acquisitions, technological innovation, and marketing initiatives. Aggressive expansion or new and innovative service introductions by Atlas' competitors could cause a decline in revenue or loss of market share for Atlas.

Operational Risk

Operational risk refers to risk that a loss will be incurred as a result of irregularities, error, systems failure, or non-compliance with Atlas' plant policies and procedures, potentially resulting in the spoilage of temperature-controlled products. Operational risk at Atlas is managed by a system and process designed to safeguard against such occurrences. Atlas has systems in place and a recovery plan to respond immediately to systems failure or catastrophic events.

Foreign Exchange Risk

The Trust derived approximately 65% of its revenue from the United States in 2002. Following the transactions in October 2002 revenue and operating earnings derived from the United States are expected to increase to approximately 75% of revenue streams. Forecasted cash flow from U.S. operations for the ensuing year is hedged through the use of Canadian dollar forward contracts and Canadian dollar call options entered into with major financial institutions. The Trust maintains a policy to hedge 90% of its expected U.S. cash flows for the next 24 months and has entered into a series of forward contracts with a weighted average rate of $1.5745 per U.S. dollar.

In addition, foreign exchange risk relating to capital assets in the United States is reduced in part through the matching of its U.S. dollar denominated assets to the extent possible with U.S. dollar denominated long-term debt financing.

Interest Rate Risk

Atlas mitigates interest rate risk through the use of interest rate swaps. Every 1% increase in unhedged interest rates would reduce Atlas' annual earnings by approximately $2.3 million or approximately $.038 per unit. When interest rates fall, the reverse is true. The Trust utilizes derivatives to reduce its exposure to interest rate movements. The Trust has entered into floating to fixed rate interest swaps matched to the term and amount of certain of its outstanding debts. At December 31, 2002, 93% of the outstanding long-term debt was fixed through swaps to June 2004.

Dependence on Key Personnel

The highly competitive market for qualified personnel could adversely affect Atlas' ability to attract and retain competent managerial, sales, marketing, and technical personnel. Atlas has entered into employment agreements with its two senior executives to provide continuity of management at a senior level. These agreements include non-compete provisions.

Employee Relations

Atlas has unionized operations in a number of its facilities. No labor stoppages have occurred since the establishment of the Trust; however, future strikes or lockouts could restrict Atlas' ability to service its customers in the above-noted regions, consequently impacting revenue. Atlas has entered into collective bargaining agreements at its unionized facilities, with expiry dates ranging from March 31, 2002 to January 15, 2006. Management believes labor relations with Atlas' unions are good.

OUTLOOK

The integration of services has positioned Atlas as a leading provider of supply chain solutions to the food industry. Atlas has a strong customer base built on key relationships with mid and large-size food processors and retailers who outsource their supply chain needs. Atlas is now positioned to offer its menu of services throughout the entire supply chain process. Atlas is able to provide services from the time of harvest of crops to the initial storage of raw materials coupled with inventory management systems allowing for just-in-time release of inventory to the production line, storage and value-added order assembly services for finished goods producers, and, ultimately, distribution and freight management to retailers and food service providers. This ability to service the "cold chain" process is possible through the deployment of advanced information management systems linked to the latest decision support databases, allowing the Trust to be a low cost provider of supply chain solutions.

Atlas will continue to invest in operating and financial management systems linked to decision support software applications in order to further improve the efficiency of its operations and service offerings to its customer base. The use of data mining tools will allow the Trust to extract supply chain information for its customers, and to provide this in a real-time online system through web-based interfaces. Through the deployment of key operating platforms and common financial systems, Atlas is able to develop the necessary expertise in its core operating and financial areas to support its continuing growth while streamlining its operations. The planned deployment of comprehensive performance metrics for each business unit, and the deployment of the continuous improvement initiatives across our network, enables Atlas to seamlessly integrate all acquisitions into the Atlas network.

Atlas is the largest provider of PRW services in Canada with the only national network with twenty (20) facilities stretching from St. John's, Newfoundland to Vancouver, British Columbia. Atlas will continue to strengthen its position in the Canadian market by offering integrated supply chain solutions through this network of twenty (20) Canadian facilities and its refrigerated transportation fleets. Atlas is well positioned in 2003 to benefit from expansions to its key distribution facilities in Montreal, Toronto and Calgary and from the increased demand for its services from Canadian-based food companies. Atlas is considering further expansions to some of its Canadian facilities, but these will be linked to long-term contracts.

Following the acquisitions in October 2002, Atlas has a strong regional presence in the PRW market throughout the Midwest, Mid Atlantic and Southeastern United States operating thirty (30) facilities. Atlas continues to review opportunities to develop its presence in the U.S. Southwest market through customer relations and selected acquisitions. Atlas is examining various opportunities to expand its contract logistics operations business segment, and is expecting this business unit to provide significant growth opportunities in the near future. Atlas is also continuing to develop its freight management operations and consolidated pooling programs, through the introduction of an interconnected application system across this business segment.

In 2003, based on the current size of the network, Atlas intends to set aside reserves to finance sustaining capital expenditures in excess of $13.0 million (2002: $[illegible] million) from its significantly increased cash flow arising from its major acquisitions in 2002. This amount will change as new facilities and transportation assets are developed or acquired, or if circumstances change. This amount will be funded through the sustaining capital expenditure reserve deducted from distributable cash. The increase in the anticipated sustaining capital expenditure reserve in 2003 will be necessitated by the increased size of the temperature-controlled network and the increasing investment in information technology.

Based on strong customer demand, diversified service offerings and current industry trends, the Trust unitholders can expect to see continued growth through the expansion of existing facilities, the development of new greenfield sites, additional acquisitions and the development of its third party logistics and transportation segments.

Quarterly Summary of Financial Results

(in thousands of dollars except for Trust Unit amounts) Unaudited

	Q4/02	Q3/02	Q2/02	Q1/02	Q4/01	Q3/01	Q2/01	Q1/01	Q4/00
	$	$	$	$	$	$	$	$	$
Revenue	142,971	55,816	53,781	43,165	45,517	44,102	41,987	40,516	41,472
EBITDA	21,078	14,338	13,371	11,226	13,836	13,089	11,760	10,040	12,022
Distributable cash generated	16,811	12,033	9,132	7,384	10,326	8,573	6,155	4,748	5,092
Cash distributed	15,219	11,695	9,742	9,699	8,280	8,391	6,485	6,436	5,137
Distributable cash generated per unit	0.28	0.24	0.22	0.18	0.26	0.25	0.22	0.17	0.24
Actual per unit distributions	0.25	0.23	0.23	0.23	0.21	0.23	0.23	0.23	0.24

Unit Data - FZR.UN	*Q4/02*	*Q3/02*	*Q2/02*	*Q1/02*	*Q4/01*	*Q3/01*	*Q2/01*	*Q1/01*	*Q4/00*
	$	*$*	*$*	*$*	*$*	*$*	*$*	*$*	*$*
Trading price range of units									
High	*11.90*	*12.00*	*11.70*	*11.25*	*11.45*	*10.75*	*11.00*	*9.50*	*8.40*
Low	*10.55*	*11.15*	*10.35*	*10.24*	*10.25*	*9.62*	*8.75*	*7.65*	*7.35*
Close	*11.25*	*11.70*	*11.49*	*10.94*	*10.90*	*10.40*	*9.70*	*8.80*	*7.85*
Trading volumes (000's)	*7,713*	*6,094*	*4,102*	*5,255*	*4,304*	*3,822*	*2,516*	*2,237*	*677*
Units and equivalents outstanding at end of quarter	**60,876,956**	**50,843,345**	**42,659,709**	**42,471,000**	**41,484,387**	**35,204,555**	**28,797,375**	**28,552,899**	**22,158,139**

Convertible Debentures - FZR.DB	Q4/02	Q3/02	Q2/02	Q1/02	Q4/01	Q3/01	Q2/01	Q1/01	Q4/00
Trading price range of Convertible Debentures	$	$	$	$	$	$	$	$	$
High	137.00	140.50	135.03	131.50	133.00	125.50	118.00	109.95	104.50
Low	125.00	121.00	120.00	117.27	120.00	115.00	105.00	102.75	101.00
Close	129.00	140.00	135.03	129.00	133.00	119.01	115.50	106.00	102.75
Trading volumes (000's)	1,772	21	18	38	70	27	31	11	12

ATLAS | Locations

Canada

Calgary, Alberta
Tel. : (403) 720-6312

Delta, British Columbia
Tel. : (604) 527-7065

Surrey, British Columbia
Tel. : (604) 882-9098

Moncton, New Brunswick
Tel. : (506) 857-9054

Mount Pearl, Newfoundland
Tel. : (709) 747-0665

Halifax, Nova Scotia
(2 locations)
Tel. : (902) 468-4622

London, Ontario
Tel. : (519) 681-1980

Hamilton, Ontario
Tel. : (905) 547-2821

Toronto, Ontario
(7 locations)
Tel. : (905) 850-9334

Montreal, Quebec
(4 locations)
Tel. : (514) 337-1500

United States

Mobile, Alabama
Tel: (251) 432-3556

Phoenix, Arizona
Tel: (623) 936-2255

Denver, Colorado
Tel: (303) 297-0123

Tampa, Florida
Tel: (813) 754-9341

Atlanta, Georgia
Tel: (404) 244-1111

Cartersville, Georgia
Tel. : (770) 382-5115

Douglas, Georgia
Tel: (912) 384-7272

Gainesville, Georgia
Tel. : (770) 531-9800

McDonough, Georgia
Tel: (678) 432-6729

Pendergrass, Georgia
Tel. : (706) 693-4100

Belvidere, Illinois
Tel. : (815) 544-5200

Chicago, Illinois
Tel: (773) 523-4850

Shelbyville, Indiana
Tel: (317) 398-4896

Minneapolis and St. Paul, Minnesota
(5 locations)
Tel. : (651) 227-0741

Sikeston, Missouri
Tel. : (573) 471-7727

St. Louis, Missouri
Tel: (314) 428-8800

Buffalo, New York
Tel: (716) 674-7500

Hatfield, Pennsylvania
(2 locations)
Tel: (215) 721-0700

Malvern, Pennsylvania
Tel: (610) 251-0850

Mountville, Pennsylvania
Tel: (717) 285-4444

York, Pennsylvania
Tel: (717) 764-5630

Gaffney, South Carolina
Tel. : (864) 488-0880

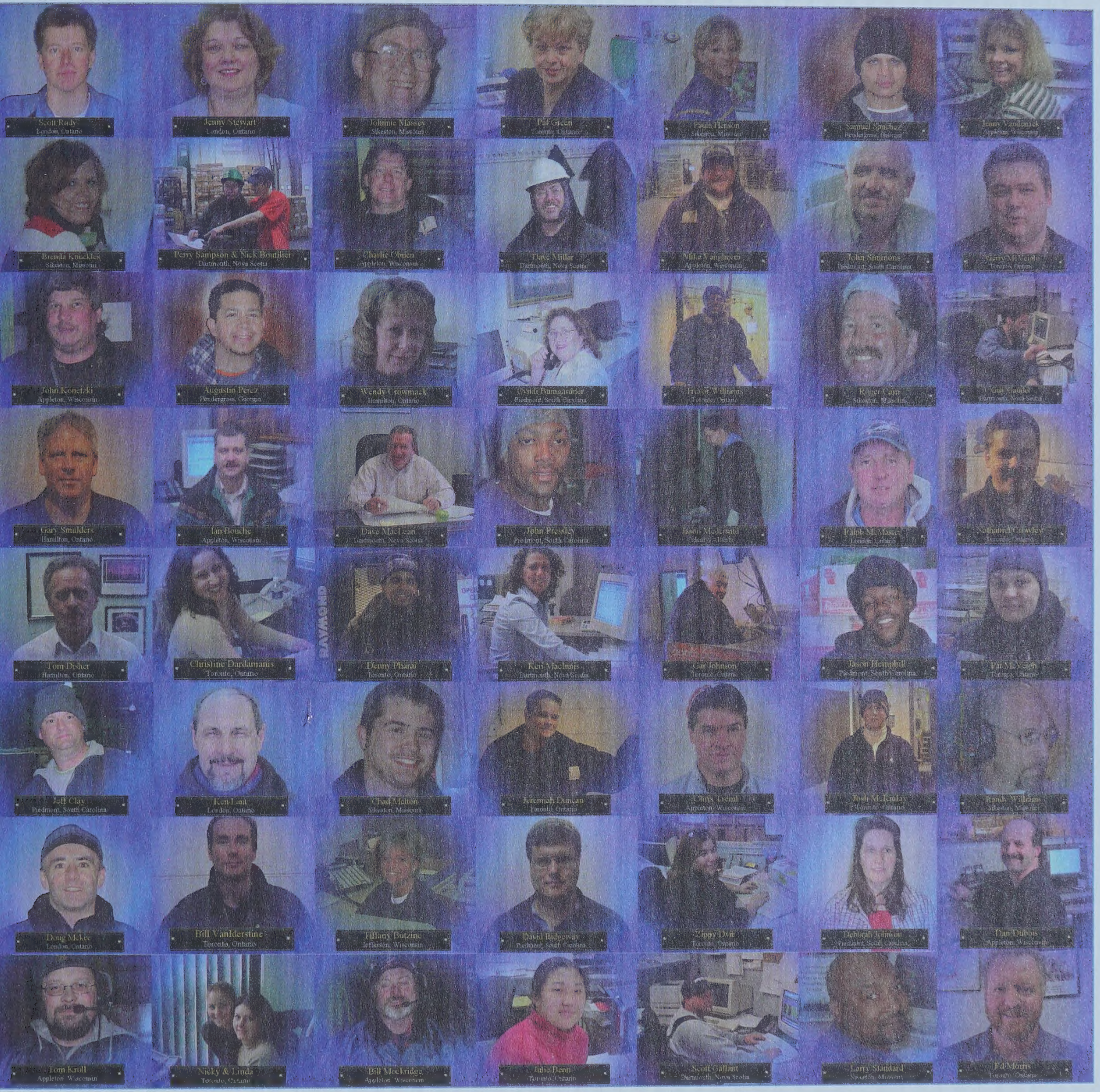
Greenville, South Carolina
Tel. : (864) 422-2419

Piedmont, South Carolina
Tel. : (864) 422-2420

Salem, Virginia
Tel: (540) 375-4161

Green Bay and Appleton, Wisconsin
(2 locations)
Tel. : (920) 468-8314

Jefferson, Wisconsin
(2 locations)
Tel. : (920) 674-3035



Our nearly 4,500 employees

throughout North America
play a key role in our success.